Ontario

2003
Budget Speech

Ontario Budget

THE RIGHT CHOICES:
Securing our Future

The Honourable Janet Ecker
Minister of Finance

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Introduction

Good afternoon to everyone here, to the people in the satellite locations, those watching on TV, and participating via the Internet.

This is indeed an historic occasion, not only because of the 21st-century process of delivering this Budget speech, but equally so for its content.

This is Ontario's fifth balanced budget in a row. The last time this happened was almost 100 years ago.

Through prudent management of your dollars, the government is keeping the promise it made to you to bring jobs and growth to Ontario. Our economic plan is working. It's produced more than one million jobs already.

Today, I'd like to talk with you about our plan, its success and the reasons it needs to continue.

A government's budgetary policy impacts you and your family. It matters.

The decisions a government makes in a Budget are never easy. Many competing demands require difficult choices. A keen sense of balance is needed.

To guide us, I travelled to 17 communities and talked with more than 1,300 people from all walks of life. We received 450 submissions.

You told me that health care and education are your most important priorities. That your children and grandchildren need high standards and resources in school to succeed. That you require quality health care, when and where you need it, to stay well and get well.

You told me that continued tax relief is important not just because it rewards individual initiative by leaving more money in your pocket to spend, save or invest, but because you recognize that lower taxes attract and keep jobs here.

You spoke about how our young people need more opportunities for post-secondary education—for skills training and apprenticeships. And about your concerns for your parents' and grandparents' ability to live independently in their own homes.

You made it clear that strong communities require roads, transit, and safe and clean water.

You told me that you wish governments were more accountable for the way they spend your tax dollars because you are often skeptical about whether the results are meeting your priorities.

While it is never possible to meet every need, this Budget reflects your priorities.

A Strong Recovery

Let me begin with our economic situation.

After the September 11 terrorist attacks, Ontario faced dramatically slower growth and lower revenues.

Since then, however, because of the fundamentals we put in place, we not only sustained our growth, but Ontario's economy has also rebounded faster and stronger than our G-7 trading partners.

Even though the growth expectations for 2002 were modest, by last June, Ontario was already emerging from the economic downturn. We now estimate the Ontario economy grew by 3.8 per cent last year.

Ontario's plan produces sustained growth

- Despite continued weak U.S. economic performance, Ontario's estimated growth in 2002 was 3.8 per cent, more than two and a half times the rate of the previous year.
- 228,000 net new jobs were created during the past 12 months alone.
- Ontario created 32,000 net new manufacturing jobs in 2002, leading all provinces and U.S. states.
- There were 83,600 housing starts, the highest level in 13 years.

Through prudent management, including the use of a portion of our reserve and the one-time increase in federal transfers for health care, we balanced the budget in 2002-03—for the fourth year in a row.

We'll pay down the mortgage on our children's future with a $484 million payment on the debt, bringing debt repayment to a total of $5 billion, as we promised. We are the first government in Ontario's history to do so.

"Thanks to your government, Ontario's economy has continued to grow during tough economic times in North America. Real output, jobs and investment are all on the rise, and we look forward to continued growth and prosperity in the Province."

Canadian Plastics Industry Association, 2003 pre-Budget consultation submission

Last year's economic performance created a solid foundation for this year's growth. Private-sector forecasts for Ontario's growth range from 2.8 to 3.5 per cent in 2003, rising to a range of 3.4 to 4.1 per cent in 2004.

Continued growth and prosperity in 2003 and 2004

- **More new jobs:** Employment growth of up to 3.5 per cent this year and next.
- **More investments in productivity:** Real business investment in machinery and equipment rising by 4 per cent in 2003 and 6.5 per cent in 2004.
- **More take-home pay:** Real disposable income to increase by 3.5 per cent this year and 4.5 per cent in 2004.
- **More homes for families:** Another 160,000 housing starts over the next two years.

Ontario faces two risks to this positive outlook.

The first risk is the possibility of economic insecurity stemming from the conflict in Iraq. So far, we have seen volatile energy prices, turbulent stock markets and reduced U.S. demand for our products. These and other potential economic impacts reinforce the need for continued caution.

Actions and decisions of the federal government constitute a second risk.

Health care is your top priority and our government's, yet Ottawa's recent funding announcement falls short of what you expected and what the Romanow Commission on the Future of Health Care in Canada recommended.

The federal government made a one-time increase in Canada Health and Social Transfer (CHST) supplement payments to Ontario of $967 million in 2002-03. We have applied this entire one-time increase against our health care expenditures for the 2002-03 fiscal year.

While total CHST funding for 2002-03 increased by $2.1 billion, this increase in federal transfers does not begin to make up the loss from previous federal cutbacks. Nor does it address the anticipated growth rate in this critical sector. For 2003-04, the total increase in federal funding is only $143 million, while we are increasing total health care funding by $1.9 billion.

After all the fanfare, the federal government's recent funding increase raised its share of Ontario's spending on health and social programs from 14 per cent to about 17 per cent in 2002-03—and this will fall this year. Seventeen per cent and falling is no one's definition of fair share—certainly not Ontario's.

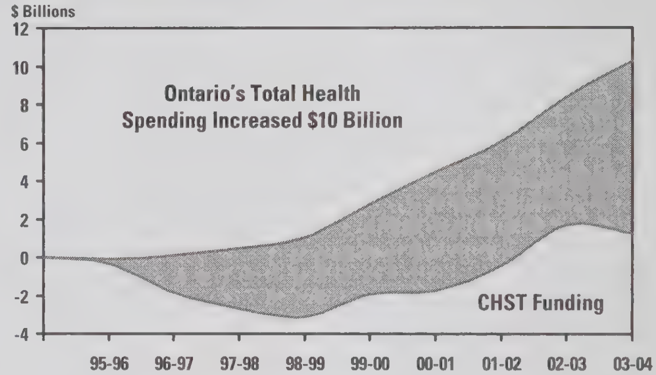
Health care is just one obvious example of the growing fiscal imbalance between the federal government and the provinces.

While all provinces are struggling to pay for the fastest-growing programs—health and education—federal government surpluses continue to accumulate. More than enough tax money is being collected in Canada. The problem is that it is not being spent on your priorities.

Worse yet, Ontario does not get its fair share of national program funding from Ottawa. This province contributes significantly not only to Canada's economic well-being, but also to the fiscal well-being of other provinces through equalization payments.

We accept our responsibility. But it's only fair that we receive our fair share from Ottawa. Every year, Ottawa spends in Ontario almost $40 billion less than it raises in taxes. For example, an unemployed person in Ontario receives $500 less from national Employment Insurance training programs than the average in the rest of Canada. The federal government spends only $877 per immigrant in Ontario for settlement supports; in Quebec it provides an estimated $2,632 per immigrant.

Change in CHST Payments and Ontario's Health Spending Since 1994-95



Source: Ontario Ministry of Finance.

This isn't fair. National programs should deliver the same benefits to all Canadians, regardless of where they live.

Ontario does not want special status, but our people expect equal status.

Cutting Waste

Despite these risks, we must continue to make the difficult decisions to keep our budget balanced and focused on people's priorities. By reducing inefficiencies and waste, we have increased spending on health, education and the natural environment, and reduced other real program spending per person by close to 30 per cent since 1995-96.

Cutting Waste

- The number of public servants cut by almost 20,000 since 1995.
- Corporate welfare eliminated, saving $90 million annually.
- The number of politicians at Queen's Park reduced by 21 per cent, from 130 to 103.
- The "March madness" of year-end government spending stopped.
- More than 2,000 unneeded regulations repealed through the Red Tape Commission.

You have told us that there's still much more to do. We agree. That's why my colleague David Tsubouchi, the Chair of Management Board, will find and eliminate $500 million in waste in government spending.

The government is also committed to ensuring that public assets are managed to provide full value for taxpayers, protect consumers, and deliver services efficiently and effectively.

In many cases, government ownership and delivery is the best way to do this. In others, private-sector assistance can bring improved taxpayer benefits and savings. In either case, public asset management must continue to be accountable to taxpayers.

To meet these objectives, we will continue to review government assets and services, including the government's interest in Teranet, Ontario Realty Corporation buildings and government land, and government-owned land and related leases for service centres along the 400-series highways.

Accountability for Better Results

In the pre-Budget consultations, you also told me that taxpayers deserve to know how their money is being spent and whether those expenditures achieve good results. When governments announce new investments, the money is not well used if taxpayers are unable to see improved outcomes.

Better planning, tighter management and better service

- Providing school boards, hospitals and post-secondary institutions with the details of Provincial support before the start of the new fiscal year to help them plan their activities more effectively.
- Continued implementation of Public Sector Accounting Board (PSAB) and Provincial Auditor's recommendations to ensure that the Province's books are kept in an accountable and transparent manner.
- Establishing one financial information system across the government.

Parents want to know that their children are learning effectively in our schools. Patients deserve to know how long they should expect to wait for a hip replacement. And students need to know that their education will provide them with opportunities for a lifetime.

Moving the yardsticks on performance

- In schools, a more rigorous curriculum and standardized testing now help parents see how their children are learning, and help teachers address problems through targeted programs like the Early Reading Strategy and the Early Math Strategy.
- Colleges are required to make public information on graduate employment, graduate satisfaction and employer satisfaction rates for their students. Universities must measure and make public degree-completion rates and employment rates for their students.
- Hospitals are increasingly focusing on outcomes. The Ontario Hospital Association and the Ministry of Health and Long-Term Care have developed an annual Hospital Report Card, which measures patient satisfaction and compares financial performance and clinical efficiencies and outcomes for each hospital.

These questions cannot be answered unless government changes the nature of the traditional debate from "more" or "less" dollars to what those dollars buy.

The government is committed to delivering the real results that taxpayers expect.

School boards, hospitals, colleges and universities said they could accomplish this more effectively if they had commitments for multi-year base funding.

Today I am delivering on Premier Eves' commitment to do this.

This is stable base funding on which our partners can depend. In return, taxpayers expect to see better results. Any additional funding will be subject to three key factors—economic growth, the level of federal government support and results to be achieved through greater accountability.

We will work with our partners to set targets and benchmarks to do this.

Ontario's Tax Cuts Are the Key to Opportunity and Prosperity

To meet the needs of Ontario's schools, hospitals, colleges and universities, economic growth is essential to the province.

A key component of our plan to encourage more growth is lower taxes. Our critics say higher taxes create more jobs. The record says the opposite.

In 1995, Ontario's taxes were too high because past governments had raised them 65 times in the previous decade. Excessive taxes chased jobs and investment to Michigan, Ohio and Alberta.

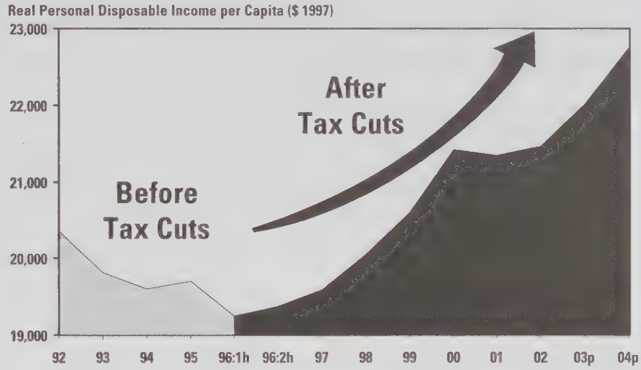
Our property tax system was a disaster. How much you paid in property taxes was based on the luck of the draw rather than current market value. School boards had raised property tax rates by over 60 per cent in the previous 10 years and increased their revenues by over 120 per cent, while enrolment had increased by only 16 per cent.

Dramatic action was needed to take Ontario in a new direction and to kick-start the economy.

Our government has put in place a multi-year tax reduction plan to return Ontario to growth and prosperity. Combined with this Budget's proposals, individuals and businesses would benefit from $16 billion in tax relief in 2003-04. At the same time, tax revenues have increased by $16 billion.

This plan is working. The record proves it. And it needs to continue.

Tax Cuts Boost Real Take-Home Pay



p = projection, h = half.
Sources: Statistics Canada and Ontario Ministry of Finance.

Lower personal income taxes

In our first term, we lowered Ontario's personal income tax rate by 30 per cent, as promised.

With the legislated $900 million in personal income tax relief that comes into effect on January 1, 2004, we will meet our promise of an additional 20 per cent reduction in personal income tax.

Ontario's plan is working for people

- For a typical two-earner family of four making $60,000, Ontario's personal income tax cuts mean a tax reduction of over $2,100 this year, rising to more than $2,500 next year.
- For a single individual working at the average wage, take-home pay has risen by $5,150 since 1995. While that individual is paying $740 less in Ontario income tax today, his or her federal taxes have increased by $955 since 1995.

Again, this year, we are proposing improvements to the Ontario Tax Reduction program to remove more modest-income Ontarians from our tax rolls. This would bring the total to 700,000 people who no longer pay Ontario income tax as a result of the government's personal income tax reductions since 1995.

In addition, I am proposing to raise to $75,000 the income level below which no one would pay the Ontario surtax. This would bring to 470,000 the number of people who would no longer pay this extra tax.

Property tax reforms have benefited homeowners and businesses

- Current value assessment ensures the value of property for tax purposes is both up-to-date and based on market value.
- Out-of-control education tax increases have been stopped.
- Residential education property taxes have been reduced by $250 million.
- Business education property taxes have been reduced by over $400 million.

Lower taxes on small business

Lower taxes are important to Ontario's small and medium-sized businesses, the backbone of the economy.

We remain on track to reduce the small business tax rate to four per cent in 2005. More than 125,000 businesses will benefit from this lower rate when complete.

Lower small business taxes create jobs

- Between 1990 and 1995, under higher taxes, Ontario's small and medium-sized businesses laid off a net 69,000 workers.
- Since 1995, with lower taxes, small and medium-sized businesses have hired 478,000 net new workers.

Fixing the Employer Health Tax

- Changes to the Employer Health Tax (EHT) are relieving 88 per cent of private-sector employers from paying payroll tax, and lowering the EHT for all other private-sector employers.

Small Business Rate Cut Plan

	1995	Jan. 1, 2001	Oct. 1, 2001	Jan. 1, 2003	Jan. 1, 2004	Jan. 1, 2005
Rate	9.5%	6.5%	6%	5.5%	5%	4%
Income Threshold	$200,000	$240,000	$280,000	$320,000	$360,000	$400,000

Investing in competitiveness, productivity and jobs

One of the key messages we heard in our pre-Budget consultations is that lower business taxes are crucial to attracting investment to Ontario. More capital investment is the key to higher productivity and higher wages, and plays a critical role in sustaining job growth.

> **"For Ontario to attract and/or retain medical device industry research and manufacturing it must recognize that it is competing with low corporate tax jurisdictions such as Ireland, Switzerland and Puerto Rico."**
>
> Medtronic of Canada Ltd., 2003 pre-Budget consultation submission

That is why we have also reduced corporate income tax rates for larger businesses and our manufacturing sector. These changes benefit approximately 50,000 firms in Ontario and the 3.6 million jobs they provide.

Ontario Corporate Income Tax Rate Cut Plan

	1995	May 2, 2000	Jan. 1, 2001	Oct. 1, 2001	Jan. 1, 2004	Jan. 1, 2005	Jan. 1, 2006
General	15.5%	14.5%	14%	12.5%	11%	9.5%	8%
Manufacturing & Processing (M&P)	13.5%	12.5%	12%	11%	10%	9%	8%

Tax rates around the world

The accounting firm KPMG conducts an annual survey of corporate income tax rates in several dozen countries around the world:

- In 2000, 10 OECD countries cut their corporate income tax rate and none increased it.
- In 2001, 12 OECD countries cut their corporate income tax rate and none increased it.

"Our new analysis in Ontario, combined with previous work done at the national level, indicates that our marginal effective tax rates are too high. We conclude that these high tax rates are negatively affecting our motivations for upgrading and innovation."

"Closing the Prosperity Gap," Task Force on Competitiveness, Productivity and Economic Progress, November 2002

"Moving forward with promised personal and corporate tax reductions will be key to Ontario's business environment. The fundamental tax reforms of President Bush's *Growth and Jobs Plan* have raised the ante for both Ottawa and Ontario to put new tax cuts back on the table. Multi-year initiatives will help the province to stay in the black."

Scotiabank Group, Sustaining Ontario's Recovery: Submission to the Ontario Standing Committee on Finance and Economic Affairs

The next step in our corporate income tax rate reduction plan will take effect on January 1, 2004. By 2006, Ontario's corporate income tax rate cuts to eight per cent will be fully implemented.

Ontario's capital tax discourages investment in buildings and equipment. It especially hits businesses in their vulnerable early years. The capital tax kills jobs.

Since 1999, the government has eliminated the capital tax for about 70,000 small businesses. In 2001, we took the first step towards eliminating this tax entirely, by making the first $5 million of taxable capital tax-free.

Today, I am proposing to reduce capital tax rates by 10 per cent starting January 1, 2004. We intend to eliminate Ontario's capital tax by the time the federal government eliminates its capital tax.

Our business tax cuts send a powerful message that Ontario is the best place in North America to do business.

There are two groups who criticize tax cuts.

Some take the ideological view that lower business taxes primarily benefit higher-income people. They are wrong. Tax cuts create jobs across the economy.

Others propose that by cancelling these business tax reductions they would realize $2.2 billion in additional tax revenue. This too is wrong. What they are actually proposing is a $600 million tax increase. This policy would kill jobs.

Supporting Investment and Economic Development

Lower taxes are only one part of our plan. It also involves strategic sectoral investments, support for innovation, strong financial markets, and aggressive skills development. This Budget includes proposals to meet those needs.

Responding to the capital needs of growing firms

- This Budget proposes:
  - changes to capital gains taxation that would enhance the ability of Ontario investors to defer the tax owing on the capital gain from their investment in a small business if they reinvest it into another small business, consistent with the 2003 federal budget announcement regarding small business rollovers;
  - changes to the Labour Sponsored Investment Fund (LSIF) program that would further support LSIF investments in companies that are having difficulty raising venture capital; and
  - changes to the Community Small Business Investment Funds program to bring new sources of capital for commercializing university and hospital research.
- The government will work with the venture capital sector to identify whether changes are required to address the needs of small capitalization firms that are having trouble raising the capital they need to expand and create jobs.
- Additional tax measures to improve the investment climate for entrepreneurs seeking venture capital would be more effective with the participation of the federal government. Ontario will approach the federal government to propose joint action.
- The government believes that an appropriately designed joint federal-provincial tax incentive, such as a flow-through share, can improve the availability of capital to biotechnology firms.

Building an innovative and highly skilled auto sector

In the past seven years, one million net new jobs have been created in the province of Ontario.

But we've only just started ... Together, we can do even better.

That's why we committed $625 million to support large-scale investments in important areas such as the auto industry.

This investment will lead to more high-skilled, high-paying jobs.

It will support the innovation, research and development that our future prosperity depends on.

Our commitment includes:

- $500 million to support industry-based innovations and to turn new ideas into next-generation products.
- And it includes $125 million for leading-edge skills training.

We challenge the federal government to match this commitment. If they did, that would bring total investment in the sector to over $1.2 billion.

What's more, we will continue to invest in new public infrastructure required by large-scale investments.

Ontario's strong record in industry research and development investments

- From 1995 to 2000, the latest data available, R&D investment in Ontario grew by over 50 per cent, reaching $797 per capita—the highest of all the provinces.
- Ontario's universities and colleges are the most successful at attracting industry R&D investment—accounting for nearly 11 per cent of R&D performed by our higher-education sector, higher than all other provinces.
- The latest data indicate that nearly 60 per cent of Canada's industrial R&D was performed in Ontario. In fact, Ontario attracted almost $3 billion in international R&D investment that year—accounting for nearly one-third of all R&D performed in our province, the largest proportion of any province in Canada.
- Inflows of international R&D investment into Ontario more than doubled between 1995 and 2000, rising twice as fast as during the previous five years.

Building skills for a growing economy

Ontario's economic surge is also increasing the need for skilled workers throughout the province. In an excellent report released last year, Garfield Dunlop, MPP for Simcoe North, recognized that meeting this need starts in schools.

That is why we are investing $90 million in our high schools over the next four years to renew technological equipment, to train teachers and to develop partnerships with employers and colleges.

Since 2000, we have invested $120 million to revitalize the apprenticeship system and to double the number of people entering apprenticeships.

Today, I am proposing to create a new refundable Apprenticeship Tax Credit for employers that would create jobs and increase the supply of skilled-trades workers in Ontario.

Added support for apprenticeships

In this Budget, the government proposes to:

- add flexibility for young people who might choose trades training by developing a new model combining a college diploma and apprenticeship;
- renew the successful Lifelong Learning Challenge Fund at TVOntario, providing $5 million to develop more online training projects in partnership with employers, focusing on apprenticeship; and
- renew programs that help women facing labour-market barriers obtain apprenticeships in the skilled trades, and skills and jobs in the information technology sector.

Safe, reliable, affordable power

Safe, reliable, affordable power is also key to Ontario's economic future. In November 2002, Premier Eves introduced a comprehensive action plan to lower electricity bills, protect consumers, encourage conservation and alternative energy, and support new supply. Today's Budget builds on the action plan with additional measures:

- To increase our supply of clean generation and to meet the growing energy needs in southern Ontario, we are moving forward, working with the private sector on the Portlands Energy Centre Project and the Niagara Tunnel Project.
- We are proposing an additional 100 per cent corporate income tax deduction for new investments in electricity self-generation from alternative or renewable energy sources.
- Working with the private sector, we will develop all of the remaining economic hydroelectric power within Ontario.
- We will tap into new sources of clean and renewable hydroelectric power through interconnections with our neighbours.
- We will work with Manitoba and the federal government on new hydroelectric capacity and the necessary transmission lines to deliver the power to the Ontario market.
- We are also continuing to review the government's power generation assets to promote competition, including development opportunities with the private sector, that can be tied to concrete commitments to increase Ontario's supply of clean electric power generation.
- In the coming weeks, my colleague John Baird, Minister of Energy, will establish an Electricity Conservation and Supply Task Force to recommend actions to meet the long-term needs of Ontario's growing economy.

Centre of Excellence for Electricity and Alternative Energy Technology

Ontario will contribute $20 million over five years to establish a new Centre of Excellence for Electricity and Alternative Energy Technology. It will bring together McMaster University, the University of Ontario Institute of Technology, Queen's University, the University of Toronto, the University of Waterloo and the private sector.

The centre will cost-share five chairs in applied energy technology. They will coordinate applied research and commercialization projects for more efficient and environmentally friendly energy technologies, and develop applied energy technology education initiatives.

Investing in Key Priorities

In the pre-Budget consultations, you spoke to me about your key priorities—health and education. But the unspoken priority we all share is our families.

Supporting our seniors

Ontario owes much to its seniors. They are our grandparents and parents, our aunts and uncles. They are also the pioneers and builders who created the prosperous province we enjoy today.

Ontario's seniors have earned our gratitude and the right to a safe and secure retirement. For many, rising costs such as property tax eat into their fixed incomes. In recognition, I am proposing to complete our commitment to reduce residential education property taxes through new tax relief for seniors.

Under our proposal, every senior homeowner or renter would receive a tax credit to reimburse them for the residential education tax that they pay, starting July 1, 2003. This would provide $450 million in net benefits annually for those people who have given so much to Ontario. That is an average net saving of $475 for 945,000 senior households.

Together with the personal income tax age credit, additional support for seniors through the Ontario Property and Sales Tax Credits and the benefits from Ontario's personal income tax cuts, this new initiative would mean $2.5 billion in tax savings per year for our seniors.

Helping meet the needs of seniors

- Cataract surgery: $10 million will be provided annually to provide access to 15,000 additional surgeries each year.
- Osteoporosis Action Plan: $7 million in annual funding will support a comprehensive plan to improve prevention, management and treatment.
- Life leases: To recognize the unique nature of this alternative form of housing for seniors, the Province intends to exempt life leases sponsored by a registered charity or a non-profit organization from land transfer tax.

Providing for families and children

Our government also continues to give high priority to supporting families and children. Between 1995 and 2002, we increased funding for children's social services by $890 million, bringing our total investment in these programs alone to $2.2 billion:

- We created the Ontario Child Care Supplement for Working Families to help low- and moderate-income families participate in the labour force.
- We made far-reaching changes to the *Child and Family Services Act* and substantially increased resources to Children's Aid Societies because nothing is more important than protecting children from abuse and neglect. A more responsive child protection system has resulted in significant increases in the number of reported cases in which children need protection.
- We are acting on the recommendations of the Early Years Study to build a network of Early Years Centres across the province to support parents and children and connect them with important services.

Highlights of current government investments in children and families

Investing in children's health and development

- Introduced the Healthy Babies, Healthy Children program.
- Expanded speech and language services for preschool children.
- Introduced immunization of school children against measles and Hepatitis B.
- Implemented an infant hearing screening program.
- $7 million for initiatives to stem the growing problem of eating disorders.
- $11 million contribution to establish and expand the Electronic Child Health Network.
- Increased funding to Children's Treatment Centres by $20 million annually.

Focusing on the early years

- An Early Years Plan of $153 million in 2002-03, growing to $192 million in 2003-04, to ensure that children under age six receive the best start in life.

Helping children with special needs

- $39 million annually for an intensive early intervention program for children with autism aged two to five.
- $27 million annually for specialized programs and services that help children whose complex special needs are not being fully met within their communities.

Protecting our children

- $26 million over four years to improve the safety and security of abused women and their children by adding 300 shelter beds; $9 million annually for counselling, telephone crisis services, and other supports.
- $10 million annually for programs to help women and children recover from the effects of domestic violence.
- $2 million over three years to the Toronto Police Service to crack down on child pornography.
- Enacted the *Rescuing Children from Sexual Exploitation Act.*
- Proclaimed *Christopher's Law* and provided $6 million annually to create and maintain the first registry of sex offenders in Canada.

Ontario Child Care Supplement (OCCS) for Working Families

- Over $200 million in benefits annually to help low- to moderate-income working families with children under age seven.
- Annual supplement of $210 per child under age seven provided to low- and moderate-income working single parents.

Ontario's Promise

- Mobilized communities and organizations in support of children and youth. To date, over $46 million committed from partners.

PROTECTING ONTARIO'S CHILDREN

In 2003-04, we are providing an additional $164 million to enable Children's Aid Societies to protect children at risk of abuse or neglect. This brings our commitment to the protection of children to over $1 billion in 2003-04.

MORE SUPPORT FOR CHILDREN WITH AUTISM

In 1999, we became the first Ontario government to fund Intensive Behavioural Intervention (IBI) for children with autism aged two to five. Current funding for this program is $39 million annually.

Today I am announcing increased funding of $33 million in 2003-04, growing to nearly $59 million in 2006-07, to expand supports and introduce new programs for all children with autism and their families.

I am also announcing that we will be providing $3 million to colleges and universities over two years to provide new training programs for professionals who provide care and treatment for children with autism.

INCREASED SUPPORT FOR CAREGIVERS

We all have friends and family struggling with the challenge of caring for aged and dependent parents and relatives.

These family members must cope with higher costs than others. Ontario's current tax system provides support to family caregivers in limited circumstances. However, individuals who care for their infirm, dependent spouses receive no recognition of their efforts through the tax system. Adult children who help their infirm parents with modest incomes to remain in their own homes also receive no tax support. Today, I propose to close these gaps and to enrich the level of tax support for family caregiving.

I am also proposing that the value of Ontario tax credits for individuals with disabilities be increased to provide greater recognition of their circumstances.

This increased tax support would provide annual benefits of $50 million to about 165,000 family caregivers and people with disabilities. This means an average tax saving of about $300 each.

Investing our health dollars wisely

Caregivers, seniors, indeed all of us, depend on access to high quality health care.

In 1995, health care in Ontario was in critical condition.

Past governments knew for years that health care needed to be reorganized, but no one did anything about it.

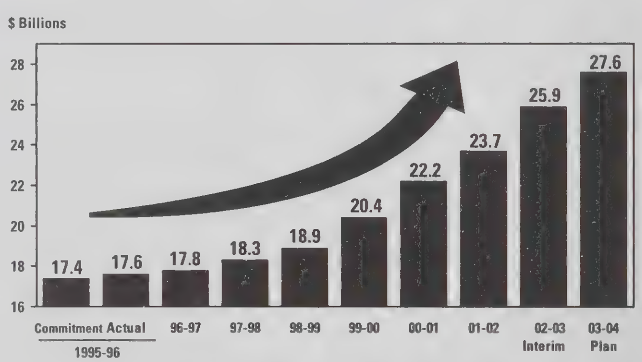
- Investments in long-term care were neglected.
- Waiting lists were too long.
- Essential diagnostic equipment such as MRIs were virtually inaccessible to millions of Ontarians.

Your government took action to renew health care in Ontario and restore public confidence in the system. We are pursuing our plan to address what you want from your universally accessible, publicly funded health care system:

- more doctors and nurses;
- shorter waiting lists;
- increased access to technology;
- better mental health services;
- and a stronger focus on keeping people well.

In short … a strong health care system that is there when you and those you love need it.

Health Base Operating Spending Increases*



* Ministry of Health and Long-Term Care base operating spending excludes capital, restructuring and major one-time costs.
Source: Ontario Ministry of Finance.

In 1995, Ontario was spending $17.6 billion annually on health care. This year, Ontario will invest $27.6 billion in health care, an increase of $10 billion since we came to office.

Increased health care investments for 2003-04

- Additional funding to support residents in long-term care facilities and to continue the expansion of long-term care beds.
- Over $275 million for payments to physicians and other practitioners including primary care renewal.
- Almost $200 million to cover higher utilization of Ontario drug programs.
- $193 million for diagnostic and medical equipment upgrades and replacements.

We are working to increase access to health care for the people of Ontario.

Ontario's investments in health care facilities

- $194 million for the London Health Sciences Centre;
- $132 million for the Thunder Bay Regional Hospital;
- $115 million for the Ottawa Hospital;
- $89 million for the Kitchener-Waterloo Grand River Hospital;
- $17 million for the Orillia Soldiers' Memorial Hospital;
- $38 million for the Northumberland Health Care Corporation;
- $64 million for the Windsor Regional Hospital Metropolitan site;
- 186 new and 184 redeveloped long-term care beds at the F.J. Davey facility in Sault Ste. Marie;
- 160 new long-term care beds in the Town of Kingsville; and
- 200 new long-term care beds at the Yee Hong Centre in Markham.

Since Ernie Eves became Premier, we have more than doubled annual capital investment in Ontario's hospitals.

We are also advancing primary care reform:

- 330,000 patients are enrolled at 29 Family Health Network and pilot sites across the province.
- 55 community health centres and 52 health service organizations are providing primary care to more than 570,000 Ontarians.

We are also taking a number of steps to increase the supply of health professionals:

- We are expanding the number of nurse practitioners for rural and underserviced areas.
- We will reimburse tuition for nurses and nurse practitioners willing to practise in underserviced areas after graduation.
- We're completing the new Northern Ontario Medical School—the first new medical school in 30 years—with campuses at Lakehead University in Thunder Bay and Laurentian University in Sudbury.
- We are increasing the number of foreign-trained doctors certified to practise in Ontario.

Improved access to health services

- 20,000 new long-term care beds coming on-stream by 2004, plus an additional 16,000 beds being renovated to bring them up to standard.
- Number of MRIs in Ontario increased from 12 in 1995-96 to 42 today, and 10 more approved.
- Waiting times for cardiac surgery reduced by 50 per cent since 1996.
- 16 regional and district stroke centres established since 2000.
- Ontario Breast Screening Program has tripled the number of screens per year.
- Ontario's pioneering TeleHealth system—established in 2000 and expanded throughout the province in 2001—provides round-the-clock advice and information from registered nurses to an average of 3,500 Ontarians every day.

SUPPORTING CANCER RESEARCH

One in three Ontarians will develop cancer in their lifetime. Researchers and scientists say that finding a cure for breast cancer and prostate cancer is achievable in the next decade. We are building on Ontario's strengths in cancer research.

Over the next 10 years, we will invest $1 billion in a new Cancer Research Institute of Ontario. Dr. Bette Stephenson, Chair of the Ontario Innovation Trust, and Dr. Cal Stiller, Chair of the Ontario Research and Development Challenge Fund, will coordinate the effort to expand and strengthen our research capability by attracting top researchers to the province and keeping the best of our promising scientists in Ontario.

"Finding a cure for breast and prostate cancer can be done, it just takes leadership!"

Dr. Charles Hollenberg, world-renowned cancer researcher and former head of Cancer Care Ontario

ADDRESSING THE CHALLENGE OF MENTAL ILLNESS

Mental illness represents a serious challenge for many families. In any given year, one in five adults in Ontario will experience mental illness.

We will invest $250 million over five years to move forward with mental health care reform.

Reforming mental health care

- A Premier's Council on Mental Health to raise the profile of mental health and mental illness, address key Provincial initiatives, promote collaboration and monitor progress on mental health reform.
- A provincial public education campaign to build awareness and understanding of mental health issues and to combat stigma and discrimination against those living with serious mental illness.
- Expand early intervention and prevention service capacity across the province.
- Support for consumer-led activities, such as self-help support services, consumer-run businesses and leadership skills training.
- Complete divestment of the provincial psychiatric hospitals located in Whitby and North Bay.
- Create a Centre of Excellence for Children's Mental Health at the Children's Hospital of Eastern Ontario.

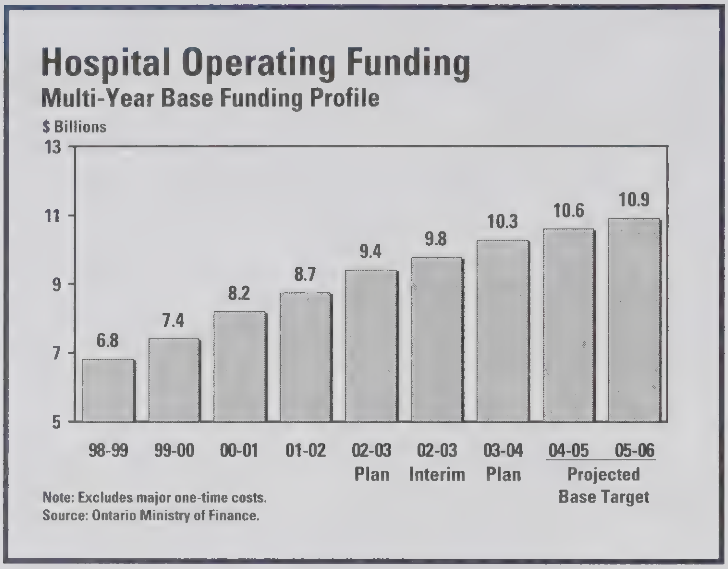
RESPONDING TO WEST NILE VIRUS

West Nile virus worries many of us. Last week, the Health Minister announced the details of our comprehensive plan to fight this virus. Today, we are committing $100 million over five years to implement this plan.

FOCUSING ON HEALTH OUTCOMES

Hospitals are central to our health care system. In 2003-04, Ontario will provide $10.3 billion to support hospitals. By 2005-06, multi-year base funding that I am announcing today will provide the hospital sector with an increase of 16 per cent over the level of support it received prior to the Third-Party Review in 2002-03.

We will work with the hospital sector to create the performance measures on which multi-year base funding will be built.



I know that hospitals have asked for more money. In fact, they've asked for an increase of two to three per cent over what we are providing in the coming year. Given the 50 per cent increase hospitals will have received since 1998-99 and our commitment to stable multi-year base funding, taxpayers have every right to expect that their needs for more and better care will be met.

Taxpayers have told me that they have other pressing priorities. Many of our most frail senior citizens reside in our long-term care facilities. To provide them with additional nursing care and assistance, I am pleased to announce that we will provide an additional $100 million annually, bringing the year-over-year increase to about $400 million.

Public education

Our schools are also a key priority for you.

Every Ontarian wants the same thing: for each of our students to achieve their full potential.

In 1995, Ontario's public education system needed reform and renewal. The curriculum was outdated. Our students were lagging behind.

Employers and post-secondary institutions complained that high school graduates lacked basic reading and writing skills.

And there was no accountability to parents, or taxpayers.

Those days are gone.

Today, in classrooms across Ontario, our reforms mean success for our students.

Student-focused funding

- Equal access for all Ontario students no matter where they live—no more "rich" or "poor" school boards.
- More money for students in classrooms, less on administration.
- Increased and protected funding for special education.
- Improved accountability for parents and taxpayers.

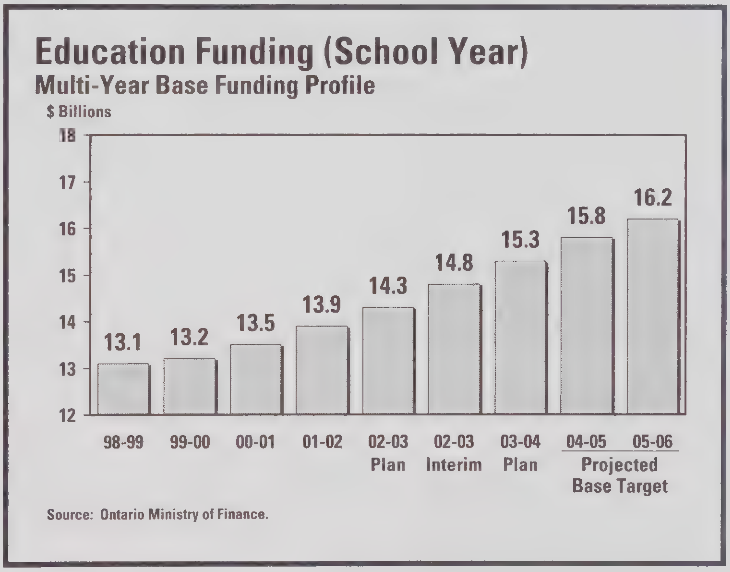
In addition to these quality improvements, the government introduced the student-focused funding formula to support the setting of higher standards and to increase the accountability of public education.

"I view the funding formula as an instrument for advancing the education goal of continuous improvement in student learning and achievement. It provides a context and acts as a prerequisite for achieving that goal."

Report of the Education Equality Task Force, 2002

Last year, we appointed Dr. Mordechai Rozanski to lead the Education Equality Task Force. He concluded that the funding formula was working, that new investments were required to better support student learning and that the education system must be more accountable to parents and taxpayers.

We are accepting his advice. By 2005-06, multi-year base funding for school boards will be 14 per cent—or almost $2 billion—higher than the funding provided in last year's Budget.



This includes the announced commitments of $875 million for Ontario's public education system—increased support for special education; learning materials and textbooks; student transportation; school renewal; rural, northern and small schools; teacher salaries; and students at risk.

"...every investment accepted requires school boards, principals, teachers, and other staff to demonstrate accountability for using those resources efficiently and effectively for the purpose intended."

Report of the Education Equality Task Force, 2002

Higher standards improve student learning

- 55 per cent of Grade 6 English-language students achieved the provincial standard for reading, compared to 48 per cent four years ago.
- 55 per cent of Grade 3 French-language students achieved the provincial standard for writing, compared to 42 per cent five years ago.
- 58 per cent of Grade 3 English-language students achieved the provincial standard for mathematics, compared to 43 per cent five years ago.

In exchange for these new investments, and the implementation of the Rozanski recommendations, parents expect the system to be focused where it needs to be—on improved student learning.

Equity in Education Tax Credit

As Premier Eves announced on March 20, we intend to introduce legislation to phase in the Equity in Education Tax Credit according to the original schedule as well as measures that will provide parents with more information about how their schools are evaluating their children's progress.

Post-secondary education

We must also meet the needs of our post-secondary students.

COLLEGES AND UNIVERSITIES

Our students know one thing for sure: today's economy demands higher levels of education and skills.

And they know post-secondary experience is the best way to take advantage of the exciting employment opportunities Ontario's economy is creating.

The people of Ontario know this too.

We have more adults with post-secondary credentials than any other country in the OECD. It's a competitive advantage.

We have to do more to sustain and improve.

Because it's good for Ontario and it's good for our kids.

This fall, a record number of students will arrive on Ontario's college and university campuses, and this enrolment trend will continue well into the next decade.

In anticipation, we've undertaken the most aggressive expansion of our college and university system since the 1960s.

We have just completed a new round of SuperBuild funding, and I am pleased to announce that we will create over 20,000 new student places for a total of 135,000 new student places.

This is a massive undertaking—the equivalent of building nine new McMaster Universities, or 11 new Sheridan Colleges.

Expanding post-secondary education options

- Ontario's first new university in 40 years—the University of Ontario Institute of Technology in Durham—will open this fall.
- In February 2003, the government created three new Institutes of Technology and Advanced Learning at Humber, Conestoga and Sheridan Colleges to increase the number of applied degree programs. Georgian College is creating an Institute of University Partnerships and Advanced Studies to expand degree-level learning to the Barrie region.

The government will again raise its multi-year operating grant commitment to the post-secondary sector by an additional $75 million, bringing it to $443 million more in 2003-04 than in 2000-01.

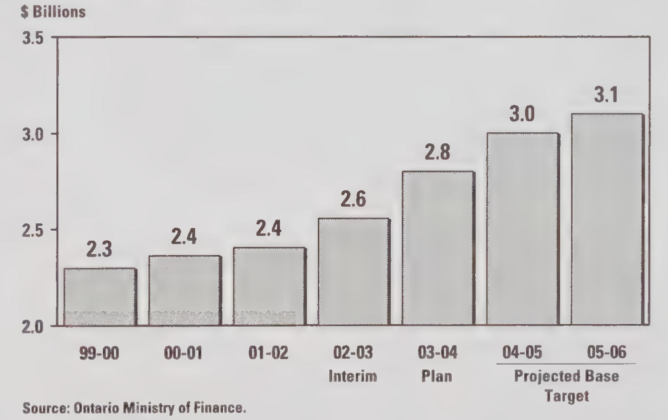
As part of our multi-year base funding commitment, we are providing an increase of 21 per cent by 2005-06 over the 2002-03 Budget level of funding.

To ensure that the "double-cohort" students receive the quality post-secondary education they need for future success, I am announcing today the creation of two Quality Assurance Funds, one for Ontario's universities and one for Ontario's colleges.

We will provide the university fund with $75 million in 2003-04, and this will rise each year to reach $200 million in 2006-07. We will provide the college fund with $60 million in 2003-04, and this will rise each year to reach $100 million in 2006-07.

Operating Grants to Colleges and Universities

Multi-Year Base Funding Profile



Source: Ontario Ministry of Finance.

We will invest in new learning resources, upgraded equipment and student services, as well as expand the number of faculty and graduate teaching assistants.

We will work with post-secondary institutions, faculty and students to develop a performance measurement framework that will govern these Funds.

Our government is committed to ensuring that a lack of financial resources does not limit opportunities for students to pursue post-secondary education. Today I am announcing a commitment of $400 million to support phase 2 of the Ontario Student Opportunity Trust Fund, which will enable an estimated 400,000 students to attend college or university over the next decade.

HELPING STUDENTS WITH LEARNING DISABILITIES

Every student deserves equal opportunity in life, and this is particularly the case for students with learning disabilities. In 1997, our government established the Learning Opportunities Task Force, chaired by Dr. Bette Stephenson. It has been testing new approaches to improve access and support, involving 3,000 post-secondary students with learning disabilities.

We have put in place additional counselling, a mobile assessment service and new learning strategists on campus to help students. Every post-secondary institution in the province is providing special support for students with learning disabilities. This Budget builds on these investments, improving services and raising program expenditure to $14 million annually.

Making Ontario the Best Place to Live

The cleanest, safest drinking water in the world

Strong support for tough action on drinking water

"We are most encouraged to see the government moving forward with many of the recommendations made by Commissioner O'Connor. The proposed *Safe Drinking Water Act* will serve as the important cornerstone of drinking water regulation in this province."

Sharon Crosby, President, Ontario Municipal Water Association

"The government's actions today are an excellent step forward. Source protection on a watershed basis is the first critical barrier in a multi-barrier approach to the safety of our water supply."

Peter Krause, Chair, Conservation Ontario

During the past year, the government worked to put in place the toughest policies in the world for safe, clean drinking water. We're implementing the recommendations made by Justice Dennis O'Connor by strengthening legislation, doubling the number of inspectors and protecting groundwater.

Today, I am announcing the expansion of our commitment to invest in safe drinking water—to $750 million over three years.

The Province is also meeting its commitment to safe drinking water by implementing key regulations under the *Nutrient Management Act*. Steps will be taken to ensure compliance by new and large farms. No action will be required of ongoing small farms until consultations on a manageable and affordable implementation of the Act are completed and funding programs established.

Investing in clean, safe water in 2003-04

- $200 million to help municipalities meet tough new drinking-water quality standards.
- $31 million for provincial park compliance with new water regulations.
- $41 million to support safe drinking-water legislation and compliance.
- $10 million for R&D and increased access to training through the Clean Water Legacy Trust and the Clean Water Centre of Excellence.

Strong communities

Ontario municipalities have benefited from a significant range of reforms and investments introduced since 1995.

Supporting Strong Communities

- Realigned provincial and municipal responsibilities have improved accountability for public services and provided municipalities with stable costs and growing revenues.
- A comprehensive reform of the property tax system has restored the major revenue source for municipal governments and strengthened their fiscal health.
- The new *Municipal Act* is providing Ontario municipalities with new tools to meet their modern governance responsibilities.
- This year alone, over $1.2 billion in operating and capital support is being provided for municipalities.

Ontario Small Town and Rural (OSTAR) Infrastructure Program

- $460 million over five years for key infrastructure projects in Ontario's agricultural and rural areas, small towns and cities.
- Many investments are helping municipalities upgrade water systems to comply with the Drinking Water Protection Regulation and to address other public health and safety issues, including a $20 million investment to upgrade wastewater infrastructure in Sault Ste. Marie.

We are introducing new initiatives to help municipalities respond to local challenges. We are committing $1 billion in start-up capital to the new Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA) to assist municipalities with the financing of transportation and water infrastructure through low-cost loans. Ontarians will have the opportunity to support these investments through provincially tax-free Ontario Opportunity Bonds.

During the pre-Budget consultations, municipal leaders asked for new funding from Ottawa and the Province. To advance this dialogue, we will provide an increasing level of funding for municipalities. By 2005-06, this multi-year funding will result in an increase of 18 per cent over the 2002-03 Budget level.

As I stated earlier in this Budget, additional multi-year funding will be subject to three key factors —economic growth, the level of federal government support, and results achieved through greater accountability. We will work with municipalities to incorporate results and greater accountability for public investments and public services into all funding and program decisions. We will work together to make the case to the federal government for increased funding for Ontario's municipalities.

Millennium Partnerships

- $271 million over five years to support infrastructure renewal in eight major cities outside the GTA.
- Projects include a $19 million investment in Windsor to upgrade wastewater infrastructure to improve water quality in the Great Lakes and a $13 million investment towards the University of Waterloo Research and Technology Park.

The Provincial Transit Investment Plan includes:

- $1 billion for GO Transit base capital needs;
- $750 million for the municipal transit renewal program;
- $1.25 billion for inter-regional transit expansion in the Golden Horseshoe Region; and
- $250 million for strategic transit expansion projects in urban areas outside the Golden Horseshoe Region.

This government has announced a 10-year plan to expand and renew Ontario's transit infrastructure.

Recently, the Central Ontario Smart Growth Panel confirmed what commuters know—GO Transit expansion is a key priority.

The Province is committed to working in partnership with the federal government and municipalities to fast-track more frequent GO trains on existing corridors, new GO Transit services to cities and towns surrounding Toronto, and other new transit services. The Province and the federal government will be announcing new strategic investments to accomplish this shortly.

I am also announcing that SuperBuild will help fund a new GTA Bus Rapid Transit system so that commuters will be able to travel quickly and reliably across the top of Toronto from Halton to Durham.

There is more that can and should be done to improve transit service in the GTA and beyond. We will create a Central Ontario Transit Authority to do this.

To remain competitive, we need to maintain and expand our highway system. Through SuperBuild, we will invest another $1 billion in highways this year as part of our 10-year, $10 billion commitment.

Northern Ontario Heritage Fund Corporation (NOHFC)

- NOHFC investments of $100 million in 2003-04 are helping communities address their most critical needs and supporting initiatives that create new opportunities for economic development throughout the North.
- Recent investment announcements include $5 million to expand digital cellular telephone service along Highway 11 stretching from Temagami to Hearst and sections of Highway 144 in the Gogama area; $5 million towards expansion of research facilities at the Northeastern Ontario Regional Cancer Centre in Sudbury; and $4.9 million for Confederation College's Aviation Centre of Excellence to develop the aerospace industry in Northwestern Ontario.

In Northern Ontario, the government will invest $370 million this year, including major investments to expand Highways 11 and 69. In addition, the government has committed to creating tax-incentive zones in rural and northern communities to help attract jobs and investment.

Sports, Culture & Tourism Partnerships (SCTP) Initiative

- $300 million over five years to improve facilities and attractions across the province.
- Investments in major cultural and tourist facilities include $30 million for the Royal Ontario Museum and $5 million for the Art Gallery of Hamilton.
- Investments in sports and recreation centres include $2.5 million for London's Entertainment and Sports Centre and $2.8 million for Peterborough's Sports and Wellness Centre.

Urban Ontario forging ahead

- Between 1995 and 2001, the GDP of Ontario's 10 major cities grew by 27.6 per cent, over 40 per cent faster than the rest of Canada outside Ontario.
- Since 1995, employment growth in Ontario's 10 major cities was nearly 50 per cent faster than in the rest of Canada.
- Housing starts in Ontario's 10 major cities have risen by 160 per cent since 1995, over 2.5 times faster than the rest of Canada.
- Municipal debt levels in Ontario's 10 largest urban regions dropped by 8.9 per cent between 1995 and 2000, while reserve funds grew by 66 per cent.

SUPPORTING SAFE AND SECURE COMMUNITIES

Our communities not only need to be strong; they also need to be safe and secure. In an uncertain and often violent world, people want to know that their government is vigilant. That we are supporting our police and other public safety workers who risk their lives to protect us.

Since 1997, the government has invested over $150 million in a wide range of initiatives designed to create a safer, more secure Ontario for our families and our seniors.

Feeling safe, being secure

- The Community Policing Partnership Program has put over 1,000 new police officers on the street.
- Special squads were established to combat organized crime.
- 165 new probation and parole officers were hired as part of the Strict Discipline model for community corrections.
- $4 million over five years starting in 2002-03 for an Elder Abuse Strategy to ensure that seniors can live with dignity, are treated with respect and are protected from harm or abuse.
- 24 Domestic Violence Court Programs were implemented; *Christopher's Law* and the *Victims' Bill of Rights* were proclaimed; the first Registry of Sex Offenders in Canada and the Office for Victims of Crime were established.

We will provide an additional $31 million over seven years to support services for victims, including linking community-based victims' services to local police services. We will double our funding to women's centres for services to help vulnerable women find jobs.

Ontarians are appalled at the sickening spread of child pornography on the Internet. This is an international crime that must be aggressively targeted and eliminated. Ontario's children must be protected. I am therefore providing an additional $1 million annually to enhance Project P, the OPP's Child Pornography Unit.

Generations of new Canadians have contributed greatly to the nation and are responsible for much of its prosperity, but some people abuse our generosity and are here illegally. In a post-September 11 world, this is not acceptable.

I am announcing an additional $1 million for the Provincial Repeat Offender and Parole Enforcement (ROPE) squad to track down people who have been ordered deported or are otherwise in the country illegally. We expect the federal government to reimburse Ontario for its costs in combating crime in what is clearly an area of federal responsibility.

Across Ontario, firefighters need additional help to respond to incidents or emergencies and preserve public safety. Up to $40 million over five years will be provided to municipal fire services in small and rural communities to assist them in the purchase of the new emergency firefighting equipment they need.

Toronto Police Chief Julian Fantino has pointed out that around the world, helicopters have proven to be a powerful tool in keeping cities safe. We will fund the purchase of a police helicopter to enhance security in Canada's largest city through the Helicopter Evaluation Project for Large Urban Areas.

Conclusion

I would like to conclude my presentation where I began. A government's budgetary policy impacts you and your family. It matters.

It's your taxes that pay for government services. It's your advice that helped shape today's decisions.

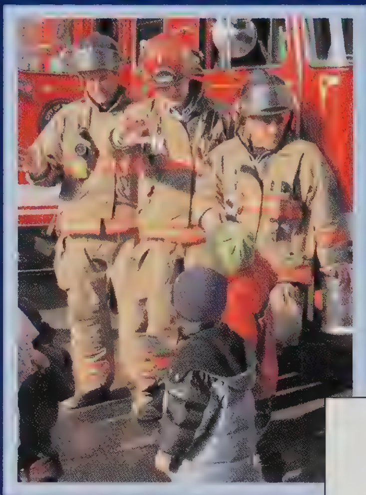
I know that the proposals I've made won't satisfy everyone. But leadership is about choices. I believe that the choices we have made, difficult as they are, will meet your most important priorities:

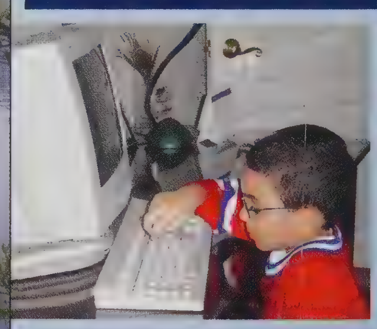
- to lower taxes to encourage jobs and growth;
- to invest in health and education; and
- to keep our communities strong and secure.

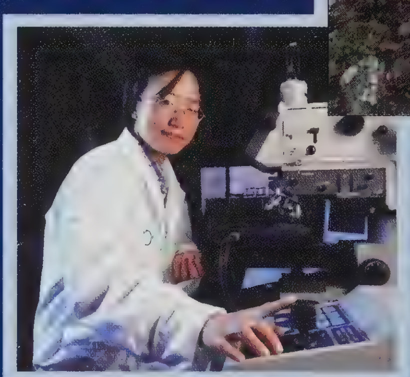
To the officials who helped prepare this Budget; to my caucus colleagues whose recommendations helped develop it; to the staff and family members whose support helped me deliver it, I say a sincere thank-you.

I look forward to working with Premier Eves and my colleagues to implement this plan.

THE RIGHT CHOICES:
Securing our Future







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Paper A

Strong Economic Growth Continues: Ontario's Economic and Revenue Outlook

Overview: Ontario's Plan for Jobs and Growth

In 1995, the Ontario Government set a target of creating 725,000 net new jobs over the next five years.

In July 2000, that goal was surpassed.

By 2002, the Ontario economy had added over a million new jobs and was well on the road to achieving the second target of 825,000 additional jobs set in 1999.

Ontario's plan has laid the foundation for continued job creation and economic growth.

The province's economy rebounded strongly in 2002, growing by an estimated 3.8 per cent, more than two and a half times the rate of the previous year. However, the pace of growth slowed towards the end of last year, reflecting a marked slowdown of the U.S. economy, higher oil prices and the uncertainty stemming from the conflict with Iraq. Nevertheless, private-sector forecasters expect the Ontario economy to continue to grow. Our planning projection is real GDP growth of 3.0 per cent in 2003 and 3.6 per cent in 2004.

Global political and economic uncertainties continue to represent the major risk to Ontario's outlook. Protracted military conflict or an extended period of high world oil prices would affect Ontario adversely. However, sound economic and fiscal policies, a flexible labour force and a resilient business community will help us to weather adverse developments on the world stage. The tax reductions and responsible fiscal policies implemented since 1995 have reinforced strong economic fundamentals, boosting incentives for investment and job creation. This has helped Ontario sustain economic growth in uncertain times, as demonstrated by our experience in 2001, when the Ontario economy grew by 1.5 per cent even as the United States slipped into recession.

In this environment, revenues are projected to rise in 2003-04 to $71,566 million.

Ontario Economic Assumptions at a Glance (Annual Average)

	2001	2002	2003	2004
Real GDP Growth (Per Cent)	1.5	3.8	3.0	3.6
Nominal GDP Growth (Per Cent)	2.4	5.1	5.2	5.5
Employment (Thousands)	5,963	6,068	Up to 6,280	Up to 6,500
Unemployment Rate (Per Cent)	6.3	7.1	6.3-6.5	5.5-6.0
CPI Inflation (Per Cent)	3.1	2.0	3.0	2.0

Sources: Statistics Canada and Ontario Ministry of Finance.

In keeping with Ontario's policy of prudent forecasting, the Budget's economic planning assumptions are below the current private-sector consensus.

Economic Growth Assumptions (Per Cent)

	2003	2004
Ontario Real GDP Growth		
Private-sector survey average	3.1	3.8
Ontario's Planning Projection	3.0	3.6

Sources: Ontario Ministry of Finance and Ontario Finance Survey of Forecasts (March 2003).

Growth Continued in the Fourth Quarter, 2002

Ontario Economic Accounts: 2002—Fourth Quarter Highlights

- The Ontario economy closed out 2002 by growing at a 1.3 per cent annualized pace in the fourth quarter after averaging 5.2 per cent over the first three quarters of the year.
- For 2002 as a whole, Ontario economic growth accelerated to a 3.8 per cent rate after slowing to 1.5 per cent in 2001. The Ontario economy has now grown by a faster rate than the nation as a whole for the past six years.
- Final domestic demand supported overall growth in the fourth quarter by rising at an annual rate of 4.7 per cent. In particular, Ontario consumer spending showed considerable resilience, advancing by almost 5.8 per cent. Ontario net exports softened in the fourth quarter as U.S. demand was noticeably weaker.
- Nominal Ontario GDP grew by an annualized 5.5 per cent in the fourth quarter of 2002, while the overall GDP price deflator advanced by 4.2 per cent.

Economic Growth in 2002

Sources: Ontario Ministry of Finance, Statistics Canada and U.S. Department of Commerce.

Ontario Economic Accounts: Highlights (Per Cent Change from Previous Period at Annual Rates)

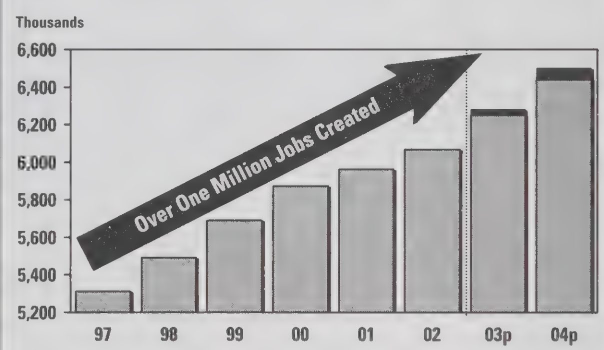
	2001	2002	2002:1	2002:2	2002:3	2002:4
Real GDP ($ 1997)	1.5	3.8	7.6	3.9	4.3	1.3
Nominal GDP ($ Current)	2.4	5.1	10.5	9.8	5.8	5.5
GDP Price Deflator	0.9	1.3	2.7	5.7	1.5	4.2

Ontario's Plan Creates over One Million Jobs

Strong job creation is the outcome of a healthy economy, and Ontario's job creation record has been remarkable. A total of 1,088,400 net new jobs have been created since September 1995, more than 80 per cent of them full-time jobs. Ontario accounted for over half of the private-sector job creation in Canada over this period. Employment growth raises incomes, lifts confidence and encourages consumer spending. This has been Ontario's continuing experience since 1995.

- Ontario's pace of job creation has accelerated in 2003 with almost 54,000 jobs added in the first two months of the year.
- Over the last 12 months, Ontario has created 228,000 jobs. Ontario's job gains have been broadly based, led by the finance, insurance and real estate sector; health care and social services; trade; professional, scientific and technical services; and manufacturing.
- The employment created in Ontario since 1995 has been largely in full-time jobs in high-paying industries. Close to 90 per cent of net new jobs have gone to people with post-secondary education.
- Ontario employment is expected to increase by 3.0 to 3.5 per cent in both 2003 and 2004.
- The province's vibrant job performance has attracted more Ontarians into the labour market. The participation rate—the proportion of the adult population that is in the labour force—has risen steadily since September 1995, and its current level of 68.6 per cent is an 11-year high. This reflects Ontarians' confidence that jobs are readily available.
- Even with rising labour force participation, the annual unemployment rate is projected to decline from 7.1 per cent in 2002 to as low as 6.3 per cent in 2003 and 5.5 per cent in 2004.

Ontario Employment*: 1997-2004

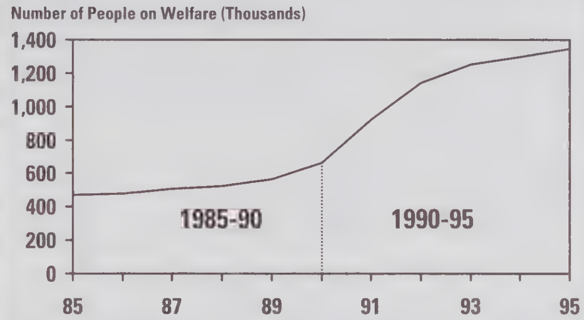


*Average annual employment level.
p = projection. Black area shows projection range.
Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario's Plan Reduces Welfare Dependence

Ontario's success in lowering the welfare caseload since 1995 is in sharp contrast to the experience in the 1980s when the caseload grew even as the economy generated jobs and reduced unemployment. Between June 1985 and June 1990, the number of welfare beneficiaries increased by almost 200,000. By June 1995, over 1.3 million adults and children were relying on welfare.

Welfare Dependence Grew, 1985-95*

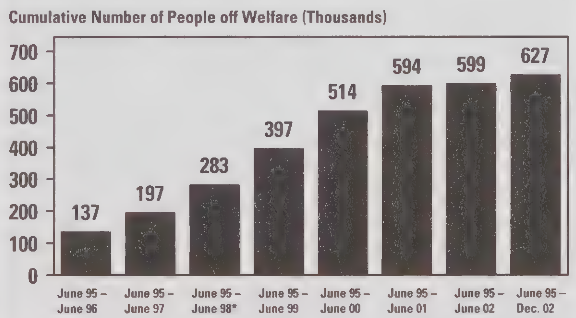


* June 1985 to June 1995
Source: Ontario Ministry of Community, Family and Children's Services.

Strong job growth, coupled with welfare reforms, has driven Ontario's success in lowering welfare dependence every year since 1995. Ontario's strong job creation record since 1995 has provided employment opportunities for everyone, including welfare recipients. As of December 2002, 627,000 fewer adults and children were on the Provincial welfare rolls.

Welfare reforms have encouraged self-reliance by breaking through barriers that fostered dependence. Ontario Works, the Province's mandatory work-for-welfare program, requires recipients to upgrade their education, get job training and gain valuable work experience. At the same time, the welfare system remains a safety net for those who truly need it.

Exit from Welfare Continues, 1995-2002



*As of June 1998, people with disabilities are not counted in welfare data.
Source: Ontario Ministry of Community, Family and Children's Services.

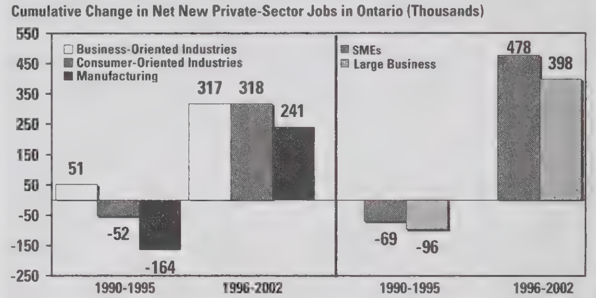
Ontario's Plan Supports Balanced Private-Sector Job Growth

Ontario's policies promote a business climate that stimulates new investment and job creation by businesses of all sizes. The Ontario Government's approach has helped the economy recover quickly from the 2001 slowdown and post strong growth in 2002. Tax cuts, support for innovation, regulatory reform and strategic investments have encouraged private-sector businesses to maintain a strong pace of job growth.

- Industries across the private sector contributed significantly to Ontario's job growth during the 1996 to 2002 period, including business-oriented industries such as professional services and wholesaling (+317,000 jobs); consumer-oriented industries such as retailing and personal services (+318,000 jobs); and manufacturing industries (+241,000 jobs).
- Businesses of all sizes have contributed to job creation. Small and medium-sized enterprises (businesses with fewer than 500 employees, including self-employed individuals) led with 478,000 jobs in the 1996 to 2002 period—accounting for more than half of private-sector job creation. Large businesses (500 or more employees) created 398,000 net new jobs during the period.

Enhanced Private-Sector Job Growth in Ontario

Cumulative Change in Net New Private-Sector Jobs in Ontario (Thousands)

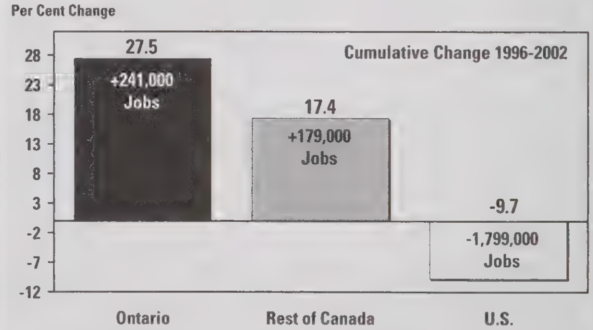


Business-oriented industries include financial, professional, management and other business services, communications, transportation, wholesaling, utilities and resource industries; consumer-oriented industries include retailing, personal services, entertainment and construction.
SMEs defined as businesses with fewer than 500 employees, including self-employed individuals; large business defined as businesses with 500 or more employees.
Annual average data.
Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario's manufacturing sector continues to outperform its competitors in other jurisdictions, creating 241,000 net new jobs in the 1996 to 2002 period—more than any other province or U.S. state.

Ontario Leads North America in Manufacturing Job Growth

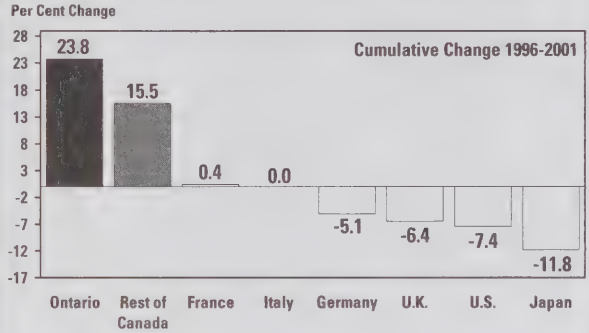
Per Cent Change



Sources: Statistics Canada, U.S. Bureau of Labor Statistics and Ontario Ministry of Finance.

- In comparison, all of the G-7 countries except Canada and France lost manufacturing jobs during the 1996 to 2001 period.
- Ontario has a highly competitive and diverse manufacturing sector. Manufacturing job growth over the 1996 to 2002 period was widespread across industries, including auto parts (+51,000 jobs); computers and electronic equipment (+29,000 jobs); machinery (+24,000 jobs); furniture (+22,000 jobs); rubber and plastics (+22,000 jobs); and fabricated metal (+21,000 jobs).

Ontario Leads G-7 in Manufacturing Job Growth

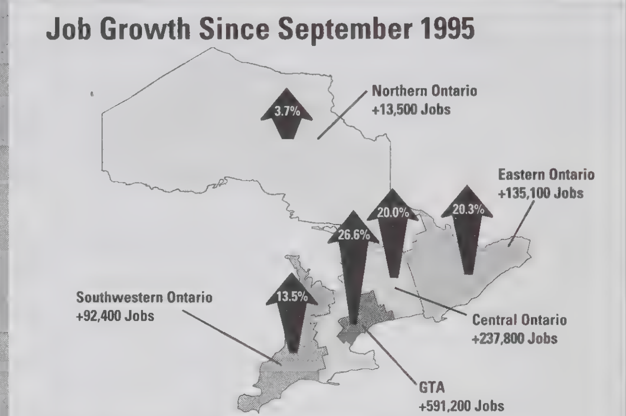


Sources: Statistics Canada, OECD and Ontario Ministry of Finance.

- In 2002, Ontario manufacturing continued to lead all provinces and U.S. states, creating 32,000 net new jobs—30 per cent of Ontario's total employment growth.

Ontario's Plan Leads to Job Growth across the Province

Since September 1995, all parts of Ontario have benefited from the province's strong job growth.



Regional figures are seasonally adjusted, three-month moving averages.
Sources: Statistics Canada and Ontario Ministry of Finance.

- Over the past 12 months alone, employment has increased by 93,800 net new jobs in the GTA, 60,400 in Central Ontario, 23,400 in Eastern Ontario, 20,700 in Southwestern Ontario and 11,500 in Northern Ontario.
- Strong job growth has lowered unemployment rates in all parts of the province. From September 1995 to February 2003, unemployment rates have decreased in Northern Ontario from 10.9 to 7.1 per cent, Eastern Ontario from 10.7 to 7.4 per cent, Central Ontario from 8.4 to 6.0 per cent, the GTA from 8.6 to 7.1 per cent and Southwestern Ontario from 7.4 to 6.7 per cent.

Ontario's Plan Provides a Solid Foundation for Economic Growth

The Ontario Government has created an environment that supports economic growth. Reducing taxes, balancing the budget, reducing Provincial debt, promoting fair and efficient financial markets, making strategic investments, fostering a culture of innovation and improving our regulatory environment to remove barriers to growth have contributed to healthy economic growth and rising living standards.

Higher productivity is the only enduring way to achieve a rising standard of living. The broadest measure of productivity is real gross domestic product (GDP) per capita. Since 1995, the growth rate of Ontario's real GDP per capita has exceeded that of the rest of Canada, the United States and the average of industrialized countries. This productivity record, combined with stellar job creation over this period, demonstrates the benefits of pursuing policies that lower taxes and encourage investment.

Sound Policies Lead to Strong Productivity Growth

Sources: Statistics Canada, Ontario Ministry of Finance and U.S. Bureau of Economic Analysis.

Ontario's economic policies, particularly tax cuts, have supported strong consumer spending, robust investment and an internationally competitive trade sector. Almost 85 per cent of the province's real GDP growth during the last six years has come from Ontario's domestic spending. The enhanced ability of Ontarians to spend and invest reduces the economy's vulnerability to fluctuations in foreign demand and increases the capacity of the economy to sustain growth. This was demonstrated during the recent global economic slowdown. In 2001, when growth among the G-7 nations slowed to 0.7 per cent, Ontario was able to record a gain of 1.5 per cent in real output and add 91,000 new jobs.

Economic growth and productivity are also stimulated by a positive business climate, which makes Ontario an attractive location for investment. Today, capital is highly mobile globally and will go to where it feels most at home. Maintaining investor confidence in Ontario's positive economic prospects remains an important goal, given geopolitical uncertainty and the shocks to confidence engendered by the collapse of Enron and other stock market developments.

Ontario is encouraging investment by enhancing investor confidence in the fairness and efficiency of Ontario's financial markets. The government is moving forward with measures ensuring high standards of investor protection, while maintaining efficient financial markets by lowering regulatory costs and improving access to capital. These important measures enhance the ability of Ontario's financial markets to enable economic growth through attracting global capital, financing investment and safeguarding consumer savings.

Ontario Is Enhancing Investor Confidence in Fair and Efficient Financial Markets

Measures contained in the *Keeping the Promise for a Strong Economy Act (Budget Measures), 2002,* will take effect April 7, 2003, including:

- New powers for the Ontario Securities Commission (OSC): to review information that public companies provide to investors; to hold CEOs and CFOs accountable for their company's financial statements; to make rules to ensure that audit committees of Boards of Directors play an appropriate role in ensuring the integrity of those financial statements; and to impose fines for securities violations and to order offenders to give up their ill-gotten gains.
- Stronger deterrents to wrongdoing: maximum court fines for general offences will rise to $5 million from $1 million and maximum prison terms will increase to five years less a day from two years.
- The government intends to propose minor technical changes, following which it will implement the rest of the Fall 2002 investor confidence initiatives, including broader rights for secondary market investors to sue, which would provide a strong deterrent to poor disclosure practices.

The government will be reviewing the need for governance standards for publicly traded trusts.

- It will also propose technical legislative changes that would clarify that investors in publicly traded trusts would not be liable for the activities of the trust.

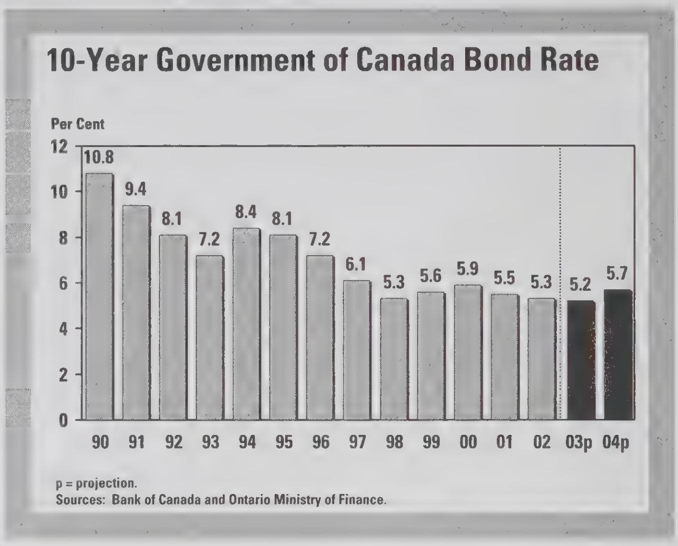
The final report of the Minister of Finance's Five Year Securities Laws Review Committee will be referred to a legislative committee. The government intends to respond promptly to its recommendations.

Further co-operative action towards national securities regulation is essential for Canadian capital markets to remain internationally competitive and efficient. Ontario is playing a lead role with its provincial and federal counterparts in developing options to promote real progress for Canada by moving in this direction.

While ensuring that high standards of investor protection are maintained, Ontario is cutting regulatory costs and improving access to capital. Ontario is continuing to look for ways to make it easier for Ontario companies to raise the capital they need to grow and create jobs.

- The government has approved a new OSC fee schedule that streamlines and reduces OSC fees so they better reflect the cost of regulation. The new fees, coming into force April 1, 2003, combined with two earlier 10 per cent across-the-board fee cuts in 1999 and 2000 and the elimination of secondary market fees in 1997, will result in the securities industry saving well in excess of $40 million per year.
- In 2001, the government announced a simpler OSC regulatory framework for private placements. A new OSC study indicates that this has helped small companies raise $1.1 billion, triple the level of previous years.
- Access to capital by small and medium-sized businesses would improve as a result of the government's proposed enhancements to the Labour Sponsored Investment Fund (LSIF) and Community Small Business Investment Fund (CSBIF) programs.

Low Interest Rates and Moderate Inflation Support Growth



An economic environment characterized by moderate and stable inflation allows interest rates to remain at low levels. The Bank of Canada has raised interest rates by one percentage point since April 2002 to avoid overheating the economy. Furthermore, the Bank has signalled that additional interest rate increases will be necessary to keep inflation close to the centre of its one to three per cent target range over the medium term. The pace and timing of interest rate increases will depend on both demand conditions in Canada and how events in Iraq unfold. However, interest rates are expected to remain low by past standards, helping to sustain economic growth.

Ontario's inflation is projected to average 3.0 per cent in 2003 and 2.0 per cent in 2004. Ontario's consumer price index (CPI) rose 4.4 per cent in February 2003 from a year earlier, reflecting higher oil and natural gas prices. Lower energy prices later this year are expected to bring inflation below the annual average rate of 3.0 per cent expected for the year as a whole.

- Since late 2001, oil and natural gas prices have risen substantially. Crude oil prices (using West Texas Intermediate as the benchmark) increased from $19 US a barrel in December 2001 to a recent peak of over $37 US in mid-March 2003. Heightened tensions in Iraq and supply disruptions in Venezuela contributed to the rise in oil prices. Prices dropped sharply as the attack on Iraq began and are likely to be volatile. On balance, private-sector forecasters expect oil prices to trend lower to near $25 US by early 2004.
- Natural gas prices (based on the Alberta reference price) increased from $2.71 per gigajoule in February 2002 to near $7 in March 2003. Natural gas prices are expected to fall to a range of $4 to $5 per gigajoule in 2004.

The following table shows the interest rate assumptions underlying the planning projection and the associated public debt interest costs.

Interest Rate Assumptions
(Average Per Cent)

	2002	2003 Jan-Mar	2003 Apr-Dec	2004
3-month Government of Canada treasury bills	2.6	2.9	3.5	4.6
10-year Government of Canada bonds	5.3	5.0	5.3	5.7

Sources: Bank of Canada and Ontario Ministry of Finance.

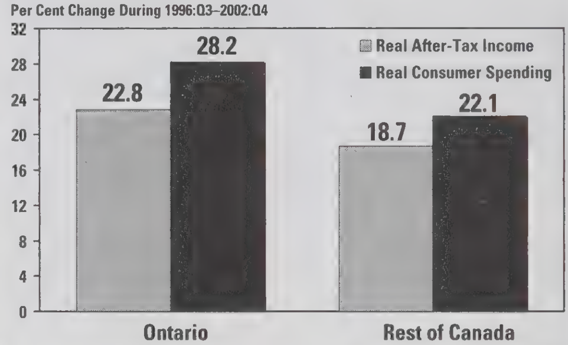
Low interest rates contribute to healthy economic growth through their positive impact on household and business finances. Business investment, housing demand and spending on durable goods such as autos and appliances are encouraged by low interest rates.

Ontario's Plan Supports Strong Consumer Spending

Healthy consumer spending has spurred economic growth over the last two years, supported by reduced taxes and low interest rates that have kept household debt servicing costs low. Rising employment and higher after-tax income are expected to sustain consumer spending during 2003 and 2004.

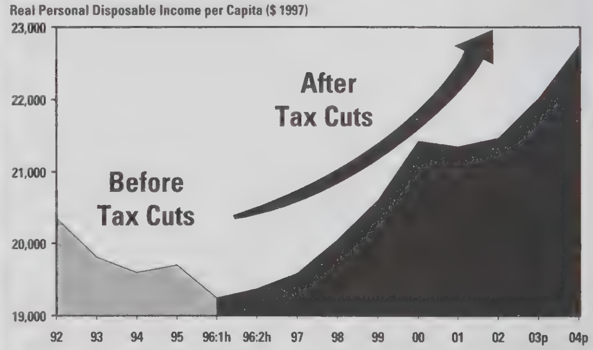
- From the second quarter of 1996, when Ontario income tax cuts began, Ontario real disposable income increased by 22.8 per cent, stronger than the 18.7 per cent pace for the rest of Canada.
- During the same period, Ontario real consumption increased by 28.2 per cent, ahead of the 22.1 per cent rise recorded in the rest of Canada.
- Real consumption rose 3.3 per cent in 2002, led by strong sales of furniture, appliances and autos.
- Real consumer spending growth is projected to be 3.4 per cent in 2003 and 3.5 per cent in 2004, supported by gains in real disposable income of 3.5 per cent in 2003 and 4.5 per cent in 2004.

Spending and Incomes Rising Faster in Ontario



Sources: Statistics Canada and Ontario Ministry of Finance.

Tax Cuts Boost Real Take-Home Pay



p = projection, h = half.
Sources: Statistics Canada and Ontario Ministry of Finance.

The healthy financial position of Ontario families will underpin sustained growth in consumer spending. Thanks to tax cuts and a growing economy, average family incomes are rising dramatically. Between 1995 and 2000, real average after-tax income of two-parent Ontario families with children rose from $57,600 to $68,700, an increase of 19 per cent. Single-parent families saw a 33 per cent increase in their real average after-tax income, from $26,500 in 1995 to $35,200 in 2000.

Although interest rates are expected to increase moderately, debt servicing costs as a share of income are anticipated to remain at a level that is low by historic standards. Canadian debt servicing costs, as a share of after-tax income, were 7.8 per cent in 2002, significantly lower than the peak of 9.4 per cent in the early 1990s.

Ontario's Plan Increases Home Ownership

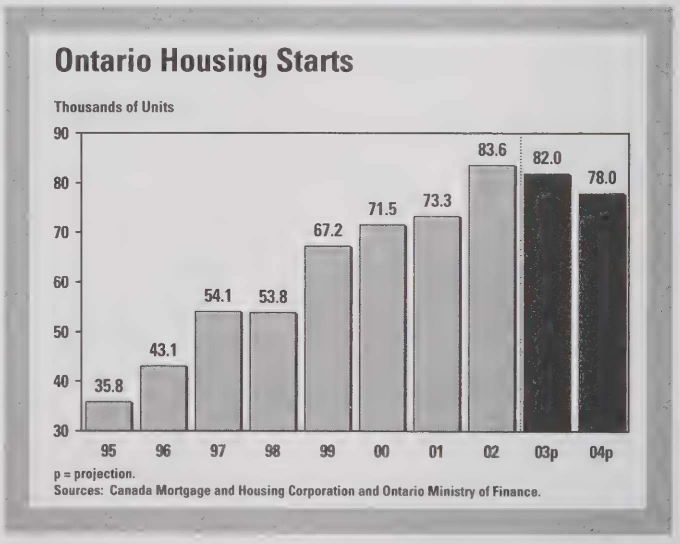
Ontario's housing market is expected to remain buoyant. Underlying housing demand conditions are very favourable, reflecting strong population growth and rising incomes. Gains in after-tax income and low interest rates are keeping housing affordable for Ontario's growing population.

In 2001, almost 68 per cent or 2.9 million Ontario households owned their own home. Since 1996, about 340,000 more Ontario households have been able to purchase their own home. Over the 1996 to 2001 period, the increase in the rate of home ownership in Ontario has dramatically outpaced all other provinces, rising 3.5 percentage points, a testament to the relative strength of the Ontario economy.

Ontario's Land Transfer Tax Refund, introduced in 1996 by Premier Ernie Eves, then Minister of Finance, is encouraging first-time buyers of new homes. Since its introduction, the rebate has helped more than 124,000 Ontario families purchase their first home. Home building is an important source of job creation. It is estimated that each new home generates 2.8 person-years of employment so the rebate has contributed to almost 350,000 person-years of employment.

Ontario housing starts reached 83,600 units in 2002, the highest level in 13 years. Another 160,000 additional starts are expected over the next two years.

- Home ownership is affordable for a rising share of Ontario families. In 2002, the monthly carrying cost for an average-priced home was $1,119, down 25 per cent from the peak of $1,489 in 1990. Although mortgage rates are likely to rise modestly and house prices are expected to rise further, housing will remain affordable.



p = projection.
Sources: Canada Mortgage and Housing Corporation and Ontario Ministry of Finance.

- Carrying costs as a share of average after-tax household income have fallen sharply, from a high of 35 per cent in 1990 to 22 per cent in 2002. The cost of home ownership relative to disposable income is expected to remain near this low level through 2004, encouraging continued housing market strength.

- Five-year mortgage lending rates in mid-March were posted at 6.6 per cent. Forecasters expect five-year mortgage rates to rise modestly, to an annual average of 7.7 per cent in 2004.

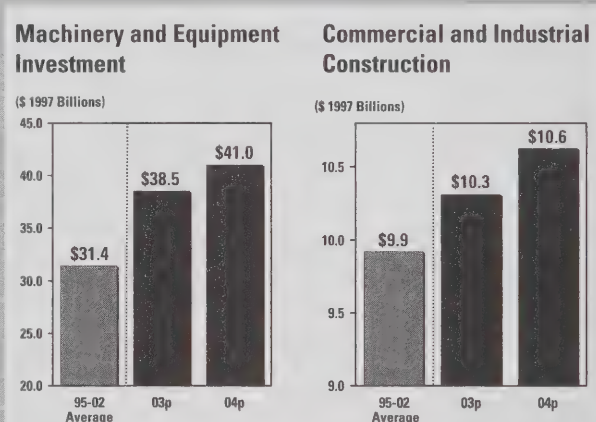
When the federal government provides more details about its recent $320 million enhancement to federal-provincial Affordable Housing Agreements, Ontario looks forward to exploring ways to help maximize new affordable housing construction in Ontario.

Ontario has introduced improvements to its existing rent supplement program, based on consultations with municipal and community-based organizations, and has committed to extending it to 2023. In 2003-04, this program will be renamed the New Tomorrow Rent Supplement Program, and $50 million annually will be spent to help about 8,000 households obtain affordable housing. While the average supplement is about $6,000, individual household supplements vary according to various factors including location and income.

Ontario's Plan Boosts Investment

When businesses invest, they enhance productivity and create jobs. Strong investment is essential for sustained vigorous economic growth and rising prosperity. If current geopolitical risks are resolved and business becomes more confident of the prospect for global economic growth, Ontario is well positioned for an acceleration of investment. Ontario's economic policies have fostered a healthy business climate. A highly educated workforce provides a strong labour base for the province's industries. Personal and corporate taxes have been lowered and barriers to investment eliminated. In addition, Ontario's central location and supportive infrastructure meet the needs of business in today's economy.

It is no coincidence that Ontario created over a million jobs while business spending on machinery and equipment rose nearly 83 per cent in real terms between 1995 and 2002. Real investment in commercial and industrial construction rose by 31 per cent over the same period. Healthy growth is expected to continue in 2003 and 2004.



p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

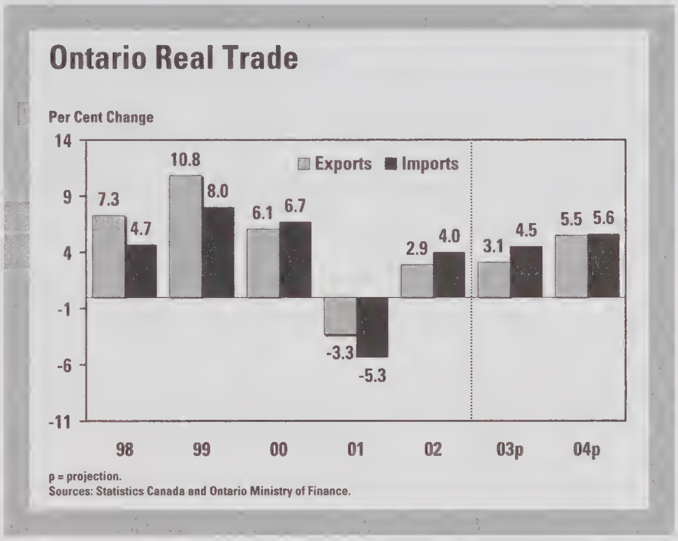
- Rising profits will bolster business investment. Corporation profits, which began to recover in 2002, are expected to increase by 7.7 per cent in 2003 and an additional 12.5 per cent in 2004.
- Real business investment in machinery and equipment is expected to gain momentum, rising by 4.0 per cent in 2003 and 6.5 per cent in 2004, after an increase of 2.9 per cent in 2002.
- Slower economic growth has resulted in reduced commercial and industrial construction spending since 2000. As foreign and domestic demand grows, firms will need to add to productive capacity. As a result, business spending on non-residential construction projects is expected to recover, growing by 1.2 per cent in 2003 and 3.1 per cent in 2004.
- The government will invest an additional $625 million over the next five years to expand and enhance current research and development programs and training funds to support large-scale investments in strategic sectors, like the auto sector, that create high-value jobs and support innovation, research and development. This will reinforce Ontario's strength as a location for investment.

Ontario's impressive investment record has helped exporters maintain their competitive edge.

Ontario's Plan Supports Competitive Exporters

Ontario exporters are competitive in the global marketplace and will benefit from strengthening international economic growth.

Private-sector forecasters expect the Canadian dollar to continue to appreciate gradually. Ontario's businesses will remain internationally competitive. Stronger economic prospects, ongoing current account surpluses and continued reduction of government debt as a share of GDP will support a rising value for the Canadian dollar. A rising dollar will help to maintain moderate inflation, keep interest rates low and reduce the cost of imported machinery and equipment.



- The U.S. economy grew by 2.4 per cent in 2002, with auto sales standing out as a source of strength. This contributed to strong growth in Ontario's auto industry, with real output rising by 9.3 per cent in 2002. Ontario's auto sector accounts for about 47 per cent of the province's international merchandise exports.
- Private-sector forecasters project that U.S. economic growth will strengthen further, with real GDP rising 2.4 per cent in 2003 and 3.7 per cent in 2004. Increased U.S. demand for machinery and equipment made in Ontario will help our exports gain momentum. Machinery and equipment accounts for about 21 per cent of Ontario's total merchandise exports.
- Ontario's imports are expected to grow faster than exports in 2003 as Ontario's domestic demand remains firmer than in the United States. As the U.S. economy strengthens in 2004, exports and imports are expected to grow at about the same pace.

Tourism is a key component of Ontario's service exports. The tourism industry is an important job creator, generating tax revenues and export dollars.

To support tourism industry-led marketing, the Ontario government is prepared to match funding that the industry commits for increased marketing of signature destinations.

Ontario's Plan Generates Growing Revenues

Ontario's strong economic growth has provided a significant boost to Ontario government revenues. Taxation revenues are expected to be $16 billion higher in 2003-04 than they were before this government started cutting taxes.

Ontario's stronger-than-expected economic growth generated additional government revenues in 2002-03. Corporations Tax, Land Transfer Tax, Gasoline Tax and Fuel Tax revenues are all expected to come in higher than projected at the time of the 2002 Budget, a development directly attributable to the stronger economy. Ontario's robust job creation record served to boost Personal Income Tax (PIT) and Employer Health Tax (EHT) revenues, but both these revenue sources were adversely affected by other factors such as weak financial markets. Retail Sales Tax (RST) revenues were supported by healthy consumer spending growth, but restrained business spending hampered revenue growth.

Ontario's strong economic growth in 2003 will result in continued increases in revenues. More people are working, which means more revenue to pay for health care, education and other priority areas. Overall taxation revenues are expected to rise 4.9 per cent in 2003-04 as a result of the growing economy. Despite lower tax rates, Ontario will once again have more tax revenue.

Ontario's plan will generate growing revenues. PIT and EHT revenues are projected to grow at 5.9 and 6.0 per cent respectively in 2003-04, leading the way in taxation revenue growth. Ontario's remarkable job creation record means that there are additional taxpayers earning higher wages in the economy, and therefore higher PIT and EHT revenues. The higher incomes in the economy will continue to support robust consumer spending. As a result of the strong consumer sector and an expected rebound in business spending, RST revenues are expected to increase 5.6 per cent in 2003-04.

Recent signs point to a rebound in corporate profitability, which will result in higher Corporations Tax revenues. Ontario Corporations Tax revenues are projected to increase 5.0 per cent in 2003-04. Factors that have hampered Corporations Tax revenues in recent years, such as loss carry-backs and capital loss realizations, are not expected to be a major drag on revenue growth in 2003-04.

A growing Ontario economy will boost gasoline demand and therefore Gasoline Tax revenues by 2.8 per cent. Strong manufacturing export growth will increase the demand for diesel fuel, leading to a 3.6 per cent increase in Fuel Tax revenues.

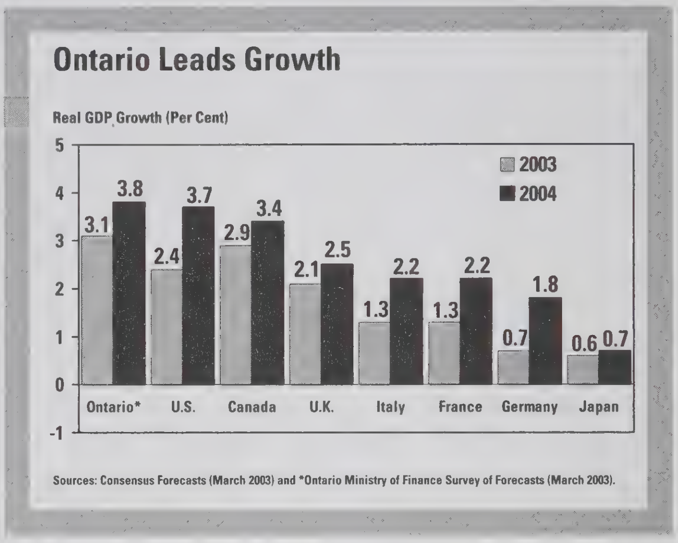
Revenue
($ Millions)

	Actual 2001-02	Interim 2002-03	Plan 2003-04
Taxation Revenue			
Personal Income Tax	19,097	18,800	19,905
Retail Sales Tax	13,803	14,090	14,885
Corporations Tax	6,646	6,520	6,845
All Other Taxes	8,092	8,991	9,120
Total Taxation Revenue	47,638	48,401	50,755
Government of Canada	7,754	9,694	10,177
Income from Government Enterprises	3,345	3,889	4,416
Other Revenue	5,149	4,407	6,218
Total Revenue	**63,886**	**66,391**	**71,566**

Source: Ontario Ministry of Finance.

For more details on Ontario's Revenue Performance and 2003-04 Outlook, see Budget Paper B: *Ontario's Fiscal Plan.*

Conclusion



Private-sector forecasters, on average, project the Ontario economy will grow by 3.1 per cent in 2003 and 3.8 per cent in 2004, faster than any of the G-7 nations over this period.

Ontario has been the leader in reducing taxes and removing barriers to growth and job creation. This has contributed to the province's impressive economic record. Since 1996, the Ontario economy's real growth rate averaged over a full percentage point higher than that of the economy of the rest of Canada. Private-sector forecasters are confident this trend will continue over the next two years.

Ontario's economic foundation is strong. Our businesses are more competitive than ever before, inflation is in check, interest rates are low and after-tax incomes are rising. Sound policies will continue to strengthen these fundamentals. Balanced budgets, tax cuts and positive business conditions have created a climate that is stimulating economic growth and raising living standards. A strong economy supports solid growth of Provincial revenues to pay for health care, education, a clean environment and other public services that are vital to our quality of life.

Paper A

Appendix

Details of Ontario Economic Assumptions

The following table provides further details about the Ontario Ministry of Finance economic projection.

The Ontario Economy, 2001 to 2004
(Per Cent Change)

	Actual		Projected	
	2001	2002	2003	2004
Real Gross Domestic Product	**1.5**	**3.8**	**3.0**	**3.6**
Personal consumption	2.3	3.3	3.4	3.5
Residential construction	2.4	11.8	2.3	2.5
Non-residential construction	-1.2	-3.2	1.2	3.1
Machinery and equipment	-3.1	2.9	4.0	6.5
Exports	-3.3	2.9	3.1	5.5
Imports	-5.3	4.0	4.5	5.6
Nominal Gross Domestic Product	**2.4**	**5.1**	**5.2**	**5.5**
Other Economic Indicators				
Retail sales	2.6	5.5	5.5	5.0
Housing starts (000s)	73.3	83.6	82.0	78.0
Personal income	3.8	2.9	5.5	5.6
Corporate profits	-15.6	4.4	7.7	12.5
Consumer Price Index	3.1	2.0	3.0	2.0
Labour Market				
Employment	1.5	1.8	3.0-3.5	3.0-3.5
Unemployment rate (per cent)	6.3	7.1	6.3-6.5	5.5-6.0

Sources: Statistics Canada and Ontario Ministry of Finance.

The following table shows the sensitivity of the fiscal balance to the direct impact of lower interest rates on Public Debt Interest and the impact of stronger economic growth on revenues and expenditures.

Impact of Changes in Economic Assumptions on the Ontario Surplus
($ Millions)

	Full Year 2003-04
100 Basis Points Lower Canadian Interest Rates	70
1 Percentage Point Higher Real GDP Growth	620

Note: These responses would hold "on average" and could vary significantly depending on the composition of change in income and expenditures.

Source: Ontario Ministry of Finance.

Paper B

Ontario's Fiscal Plan

Introduction

Ontario has balanced the budget for 2002-03. As a result of the government's economic and fiscal policies, the Province has met or exceeded its fiscal and debt-reduction targets for eight consecutive years and the budget has been balanced since 1999-2000.

With a strong foundation for economic growth established for 2003 and the medium term, Ontario is projecting a balanced budget for 2003-04, consistent with the requirements of the *Balanced Budget Act, 1999.* Continued economic growth has enabled the government to provide necessary investments in priority sectors such as health care, schools, post-secondary education and the environment, while still ensuring the budget is balanced.

This paper reviews the following:

Section I: Interim Results for 2002-03

Section II: Ontario's 2003-04 Fiscal Plan

Section III: Ontario's Capital Investments

Section IV: Strengthening Our Partnerships

Section V: Medium-Term Outlook

Section I: Interim Results for 2002-03

Ontario has balanced its budget for the fourth consecutive year in 2002-03. The interim results for 2002-03 show a surplus of $524 million, meeting the Province's commitment to maintain a balanced budget on an ongoing basis.

2002-03 In-Year Fiscal Performance
($ Millions)

	Budget Plan	Interim	In-Year Change
Revenue	66,544	66,391	(153)
Expenditure			
Programs	54,384	55,271	887
Gross Capital Expenditure	2,713	2,467	(246)
Less: Net Investment in Capital Assets*	634	576	(58)
Public Debt Interest			
Provincial	8,550	8,225	(325)
Electricity Sector	520	520	-
Total Expenditure	65,533	65,907	374
Less: Reserve	1,000	-	(1,000)
Add: Decrease/(Increase) in Stranded Debt from Electricity Sector Restructuring to be Recovered from Ratepayers**	(11)	40	51
Surplus / (Deficit)	**0**	**524**	**524**

* Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expenditure in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

** Reflects the estimated excess of revenue over expenditure of the Ontario Electricity Financial Corporation (OEFC). Consistent with the principles of electricity restructuring, OEFC debt is to be recovered from ratepayers, not taxpayers.

Source: Ontario Ministry of Finance.

- Revenue is estimated at $153 million below the level projected in the 2002 Budget Plan, mainly due to lower Sales and Rentals revenues, partially offset by higher Canada Health and Social Transfer (CHST) revenue, including a one-time CHST Supplement.

- Total expenditure was $374 million above the level projected in the 2002-03 Budget Plan, mainly due to increased in-year funding for hospitals, and additional support for school boards as a result of the Province's early response to the Education Equality Task Force recommendations, partially offset by lower Public Debt Interest charges.
- Ontario's 2002-03 Budget Plan included a $1 billion reserve designed to protect the balanced budget against unexpected and adverse changes in the economic and fiscal outlook. Consistent with the role of the reserve in prudent budgeting, the reserve has been allocated to ensure the balanced budget target is met in 2002-03, and to reduce Provincial debt.
- With the 2002-03 surplus of $524 million, the Province has achieved its target to reduce debt by $5 billion from the 1998-99 level.

2002-03 Revenue Performance

Total revenue in 2002-03 is estimated at $66,391 million, $153 million below the 2002 Budget forecast. Taxation revenues are expected to be $41 million above forecast. Payments from the Government of Canada are estimated at $1,504 million above forecast. Income from Government Enterprises is estimated at $146 million above forecast. Other Revenue is estimated at $1,844 million below the 2002 Budget forecast.

Summary of In-Year Changes to Revenue in 2002-03
($ Millions)

		Interim 2002-03
Taxation Revenue		
Personal Income Tax	(285)	
Retail Sales Tax	(140)	
Corporations Tax	370	
Employer Health Tax	(105)	
Gasoline and Fuel Taxes	70	
Tobacco Tax	(110)	
Land Transfer Tax	90	
All Other	151	
		41
Government of Canada		
Canada Health and Social Transfer (excluding Supplements)	578	
New Canada Health and Social Transfer Supplements	967	
Infrastructure	(107)	
All Other	66	
		1,504
Income from Government Enterprises		
Ontario Power Generation Inc. and Hydro One Inc.	170	
All Other	(24)	
		146
Other Revenue		(1,844)
Total In-Year Revenue Changes		**(153)**

Source: Ontario Ministry of Finance.

- Personal Income Tax (PIT) revenues are estimated to be $285 million below the 2002 Budget forecast. While Ontario's strong job creation record and wage growth in 2002 boosted PIT revenues, these factors were more than offset by the lower 2001 PIT base as reflected in 2001-02 Public Accounts and the effect of weak financial markets on capital gains and investment income.
- Retail Sales Tax revenues are expected to be $140 million below forecast. While consumer spending was strong in 2002, business spending on goods and services not directly used in the production process was restrained by a focus on cost control.
- Corporations Tax revenues are expected to be $370 million above the 2002 Budget forecast. This is attributable to stronger 2002 corporate profit growth and lower refunds being paid with respect to 2001-02.
- Employer Health Tax (EHT) revenues are expected to be $105 million below forecast. Unusually low levels of corporate bonuses and stock options contributed to the shortfall in EHT revenues in 2002-03. Unusually high refunds with respect to prior years also reduced EHT revenues in 2002-03. The higher past-year refunds were partly due to the 2000 Budget initiatives whereby EHT would no longer apply to employee stock option benefits granted by eligible research and development companies. EHT refunds also increased as a result of the revised tax treatment of religious and charitable organizations with multiple locations.
- Gasoline and Fuel Tax revenues are expected to be a combined $70 million above the 2002 Budget forecast. Ontario's strong economic growth and robust automobile sales in 2002 boosted gasoline consumption and therefore Gasoline Tax revenues. Higher manufacturing exports increased diesel fuel consumption and therefore Fuel Tax revenues.
- Tobacco Tax revenues are expected to be $110 million below the 2002 Budget forecast. The shortfall in revenues is due to a larger-than-expected decline in cigarette consumption.
- Land Transfer Tax revenues are expected to be $90 million above forecast. Ontario's robust housing market in 2002, featuring record housing resales and rising resale prices, resulted in a significant increase in Land Transfer Tax revenues above expectations.
- All Other Taxation revenue is expected to be a combined $151 million above forecast. This is mainly due to higher revenues for Preferred Share Dividend Tax and Power Dam Tax. Preferred Share Dividend Tax revenues will be $110 million above the 2002 Budget forecast mainly due to late-arriving revenues from the 2000 taxation year that were not processed by the Canada Customs and Revenue Agency until 2002. Power Dam Tax revenues are expected to be $50 million above the 2002 Budget forecast because of the inclusion of 13 Ontario Power Generating stations under the tax, and recording, in this year, the revenue collected in respect of tax owed since January 2001.

- Canada Health and Social Transfer (CHST) payments from the federal government are estimated to be $578 million above the 2002 Budget forecast. Of this increase, $482 million is due to prior-period adjustments that arise from Ontario representing a lower-than-expected share of the estimated Canada-wide 2001 personal and corporate income tax bases. This results in Ontario receiving an adjustment in 2002-03 to reflect the Province's higher-than-expected share of the fixed amount of federal CHST funding for 2000-01 and 2001-02.
- CHST Supplement payments from the federal government are $967 million above forecast. Ontario has recorded, in 2002-03, its share of the $2.5 billion Supplement announced by the federal government in February 2003. Including Ontario's share of the CHST Supplement in 2002-03 revenue is consistent with the announcement by the federal government that it would "immediately invest $2.5 billion in the CHST to relieve existing pressures."
- Infrastructure payments from the federal government are estimated to be $107 million below forecast. Delays related to the finalizing of contract agreements and project administration reduced these federal payments by $169 million, partially offset by $62 million in new federal funding for the Toronto Transit Commission.
- All other payments from the federal government are expected to be $66 million above forecast. This is primarily due to federal contributions towards Provincial payments to Ontario farmers made in past years and federal support for Provincial primary health care services.
- The combined net income from Hydro One Inc. and Ontario Power Generation Inc. (OPG) is expected to be $170 million above forecast, primarily due to higher net income from OPG. Higher OPG revenues from electricity sales, gains on the sales of long-term investments and lower operating expenses more than offset higher OPG expenditures to return to service and upgrade the Pickering "A" nuclear station, resulting in higher OPG net income.
- The combined revenue from all other government enterprises is expected to be $24 million below forecast. This is largely due to the Ontario Lottery and Gaming Corporation net income being estimated at $25 million below the 2002 Budget projection.
- Other revenues were $1,844 million below forecast, mainly due to lower income from the commercialization of government enterprises than projected in the 2002 Budget.

2002-03 In-Year Operating Expenditure Changes

Operating expenditure for 2002-03 at $64,016 million is up $562 million from the 2002 Budget forecast of $63,454 million. This increase was mainly due to increased funding in-year for hospitals, school boards, drug programs and child welfare services, partially offset by savings in Public Debt Interest costs.

Summary of In-Year Operating Expenditure Changes in 2002-03 ($ Millions)

	Interim 2002-03
Program Expenditure Changes:	
Hospitals—enhancing patient care	350
School Boards—early response to the Education Equality Task Force recommendations	349
Drug Programs—increased utilization	158
Child Welfare—increased funding for Children's Aid Societies	102
Pension and Retirement Benefit Expenditures	58
Agriculture Sector Support—transition funding for farmers (Net)	53
Other (Net)	(183)
Total Program Expenditure Changes	**887**
Public Debt Interest	**(325)**
Total In-Year Operating Expenditure Changes	**562**

Source: Ontario Ministry of Finance.

- Operating grants to hospitals increased by $350 million in-year to enhance patient care, help stabilize hospital budgets, and support innovation and positive financial performance in hospitals.
- Funding provided to school boards increased in-year by $349 million to support the implementation of the recommendations that the Education Equality Task Force identified as a priority. This increase reflects the fiscal requirement associated with the $610 million package that was announced in December 2002, which provided increased support for special education and additional resources for collective bargaining.

- An additional $158 million was allocated in-year due to higher-than-anticipated utilization in drug programs in the Ministry of Health and Long-Term Care and the Ministry of Community, Family and Children's Services to ensure that all drug program recipients, primarily seniors and social assistance recipients, have access to essential prescription drugs necessary for treating illness and maintaining good health.
- Child welfare services expenditure increased in-year by $102 million to ensure that Children's Aid Societies have the resources they need to provide protection services to children at risk of neglect and abuse.
- Pension and retirement benefits expenditure increased in-year by $58 million. This increase was mainly due to the impact of weaker-than-expected global financial markets on the assets of the Teachers' Pension Plan, the OPSEU Pension Trust and the Public Service Pension Plan, as well as the cost of benefit improvements, partially offset by one-time savings in retirement benefits as a result of changes from the most recent round of collective bargaining.
- Ontario's portion of a federal-provincial transition program for farmers in Ontario increased by $73 million in-year, partially offset by $20 million from the Contingency Fund. The increase provided represents Ontario's share of the first year of a two-year federal-provincial bridge funding initiative to assist the agricultural sector in its move towards a longer-term approach to business risk management.
- Public Debt Interest costs were $325 million below the 2002 Budget Plan projection of $9,070 million due to lower-than-expected interest rates and cost-effective debt management.

2002-03 In-Year Capital Expenditure Changes

The level of 2002-03 net capital expenditure at $1,891 million is down $188 million from the 2002-03 Budget Plan. This decline was largely the result of underspending in municipal partnership initiatives and other areas, partially offset by higher expenditure for transit assistance to Toronto.

Summary of In-Year Capital Expenditure Changes in 2002-03
($ Millions)

	Interim 2002-03
Toronto Transit Commission—transit assistance	111
Biotechnology and Information Technology Programs—lower-than-expected expenditures	(20)
Municipal Partnership Initiatives—lower-than-expected expenditures	(286)
Other (Net)	7
Total In-Year Capital Expenditure Changes	**(188)**

Source: Ontario Ministry of Finance.

- The Province provided an additional $111 million to the City of Toronto for the Toronto Transit Commission (TTC), partially offset by $62 million in federal revenue. This funding was provided to the TTC for capital renewal and rehabilitation projects as part of the Canada-Ontario Infrastructure Program and the Provincial Transit Investment Plan.
- Ministry of Enterprise, Opportunity and Innovation investments in biotechnology and information technology programs were $20 million lower than planned in 2002-03 due to project development and start-up delays in a variety of programs, including Connect Ontario and Medical and Related Sciences (MaRS).
- Spending on the municipal partnership initiatives (Millennium Partnerships; Toronto Waterfront Revitalization; Ontario Small Town and Rural Infrastructure; and Sports, Culture and Tourism Partnerships) was $286 million less than planned in the 2002 Budget due to delays in formalizing multi-government approvals and finalizing contract agreements for municipal infrastructure projects.

Electricity Sector

Interim Results for 2002-03

The combined net income from Hydro One Inc. (HOI) and Ontario Power Generation Inc. (OPG) is expected to be $170 million above the forecast, primarily due to higher net income from OPG. Higher OPG revenues from electricity sales, gains on the sales of long-term investments, and lower operating expenses more than offset OPG expenditures to return to service and upgrade the Pickering "A" nuclear station, resulting in higher OPG net income.

Revenue for the Ontario Electricity Financial Corporation (OEFC) was $40 million above expenditure, an improvement of $51 million from the 2002 Budget forecast. This improvement is primarily due to the gain on sale of Hydro One Inc. notes, higher-than-expected income from the Provision for Electricity Sector due to higher OPG net income, and lower-than-expected financing costs.

The government expects that the fund to freeze prices at 4.3 cents/kWh will balance over the life of the government's electricity action plan.

Section II: Ontario's 2003-04 Fiscal Plan

Ontario is projecting a balanced budget for 2003-04. This represents the fifth consecutive balanced budget since 1999-2000.

2003-04 Fiscal Plan
($ Millions)

	Interim	Plan	Change	
	2002-03	2003-04	$ Millions	Per Cent
Revenue	66,391	71,566	5,175	7.8
Expenditure				
Programs	55,271	59,390	4,119	7.5
Gross Capital Expenditure	2,467	3,170	703	28.5
Less: Net Investment in Capital Assets*	576	702	126	21.9
Public Debt Interest				
Provincial	8,225	8,188	(37)	(0.4)
Electricity Sector	520	520	-	-
Total Expenditure	65,907	70,566	4,659	7.1
Less: Reserve	-	1,000	1,000	-
Add: Decrease/(Increase) in Stranded Debt from Electricity Sector Restructuring to be Recovered from Ratepayers**	40	-	(40)	-
Surplus / (Deficit)	**524**	**0**	**(524)**	**-**

* Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expenditure in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

** Reflects the estimated excess of revenue over expenditure of the Ontario Electricity Financial Corporation (OEFC). Consistent with the principles of electricity restructuring, OEFC debt is to be recovered from ratepayers, not taxpayers.

Source: Ontario Ministry of Finance.

- Total revenue in 2003-04 is projected at $71,566 million, up $5,175 million from the 2002-03 interim level of $66,391 million. This increase is primarily due to higher taxation revenues driven by the strong Ontario economy.
- Total expenditure in 2003-04 is projected at $70,566 million, up $4,659 million from the 2002-03 interim level of $65,907 million. This increase is primarily attributed to increased funding for priority areas including health care, schools and post-secondary education.
- A reserve of $1 billion has been included in the 2003-04 fiscal plan to protect the balanced budget against unexpected and adverse changes in the economic and fiscal outlook. The reserve will be available for debt reduction at year-end if not needed.

2003-04 Revenue Outlook

Revenue in 2003-04 is projected at $71,566 million, $5,175 million or 7.8 per cent above the 2002-03 interim level.

Revenue
($ Millions)

	Actual 2001-02	Interim 2002-03	Plan 2003-04
Taxation Revenue			
Personal Income Tax	19,097	18,800	19,905
Retail Sales Tax	13,803	14,090	14,885
Corporations Tax	6,646	6,520	6,845
All Other Taxes	8,092	8,991	9,120
Total Taxation Revenue	47,638	48,401	50,755
Government of Canada	7,754	9,694	10,177
Income from Government Enterprises	3,345	3,889	4,416
Other Revenue	5,149	4,407	6,218
Total Revenue	**63,886**	**66,391**	**71,566**

Source: Ontario Ministry of Finance.

- Personal Income Tax (PIT) revenue is projected to increase to $19,905 million in 2003-04. This increase reflects the robust growth in jobs and wages forecast for Ontario during 2003-04.
- Retail Sales Tax (RST) revenue is expected to increase to $14,885 million in 2003-04. This is based on an economic forecast calling for continued strong growth in consumer spending and an expected rebound in business spending on goods and services subject to RST.
- Corporations Tax revenue is expected to increase to $6,845 million in 2003-04. This increase is based on the growth in corporate profits projected for 2003.
- Employer Health Tax revenue is expected to increase to $3,805 million in 2003-04, based on the strong growth in employment and wages forecast for Ontario during 2003-04.
- Gasoline and Fuel tax revenues are expected to increase to $2,365 million and $710 million respectively in 2003-04. This is due to the growing Ontario economy and the corresponding increases expected in gasoline and diesel fuel consumption.

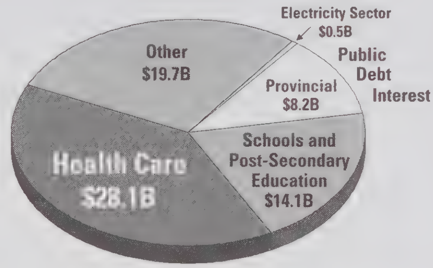
- Tobacco Tax revenue is expected to increase to $1,260 million in 2003-04. This reflects the full-year impact of the tax increase introduced in June 2002. The forecast assumes decreasing cigarette consumption consistent with higher taxes and long-term trends towards decreased smoking.
- Land Transfer Tax revenues are expected to decline to $785 million in 2003-04. This reflects the assumption of a slightly less robust Ontario housing market in 2003, following the record-setting pace of housing resales in 2002.
- All Other Taxation revenues are expected to decline to $195 million. This is mainly due to the one-time revenues included in 2002-03 for Preferred Share Dividend Tax and Power Dam Tax, the ongoing reductions in Mining Profits Tax and the elimination of the Gross Receipts Tax.
- Canada Health and Social Transfer (CHST) payments from the federal government are expected to decline to $7,146 million in 2003-04. The decline is due to the one-time revenue from prior-year adjustments included in the 2002-03 revenue estimate.
- CHST Supplement payments from the federal government are projected at $771 million in 2003-04. Ontario is including in the forecast the entire amount of its per capita share of the $2 billion Supplement that the federal government is expected to make available in 2003-04.
- Payments from the federal government under the recently announced Health Reform Fund ($386 million) and the Diagnostic and Medical Equipment Fund ($193 million) are based on Ontario's per capita share of the total funding available for 2003-04.
- Social Housing payments from the federal government are expected to increase to $643 million in 2003-04. This is primarily due to increased federal support for capital investments under the new Canada-Ontario Affordable Housing Program.
- Infrastructure payments from the federal government are expected to increase to $285 million in 2003-04. This represents federal contributions towards a number of provincial and municipal capital projects.
- All other payments from the federal government are expected to increase to $753 million in 2003-04. This is the net outcome of a number of changes expected in ongoing federal-provincial programs and agreements, including increased support for the provincial farm sector and primary health care initiatives.
- Net income from the Ontario Lottery and Gaming Corporation is projected to increase to $2,406 million in 2003-04. This is due to expectations for continued growth in the net income from racetracks, charity casinos and lotteries. This is expected to be partially offset by lower revenue from commercial casinos, which face increasing competitive pressures from facilities in the United States.

- The combined net income of Ontario Power Generation Inc. and Hydro One Inc. is expected to increase to $884 million in 2003-04.
- Liquor Control Board of Ontario (LCBO) net income is expected to increase to $1,123 million in 2003-04. The strong growth in the Ontario economy is expected to boost LCBO sales and net income in 2003-04. The decision to convert the Alcohol and Gaming Commission of Ontario (AGCO) fee on domestic beer sold in LCBO stores to an LCBO markup will also boost LCBO net income in 2003-04. This decision will leave consumer prices unaffected and transfer revenue from Liquor Licence Revenue to LCBO net income.
- Sales and Rentals revenues are expected to increase by $1,886 million to $2,207 million in 2003-04. This is largely due to revenues expected from the commercialization of government enterprises in 2003-04.
- Liquor Licence revenues are projected to decline to $477 million in 2003-04. The decision to convert the AGCO fee on domestic beer sold in LCBO stores to an LCBO markup will reduce Liquor Licence Revenue.

2003-04 Expenditure Outlook

The government's 2003-04 expenditure plan continues to focus on priority sectors, including health care, schools and post-secondary education, while improving efficiency and effectiveness in the delivery of all government services.

Support for Priority Programs, 2003-04
Total Expenditure: $70.6 Billion



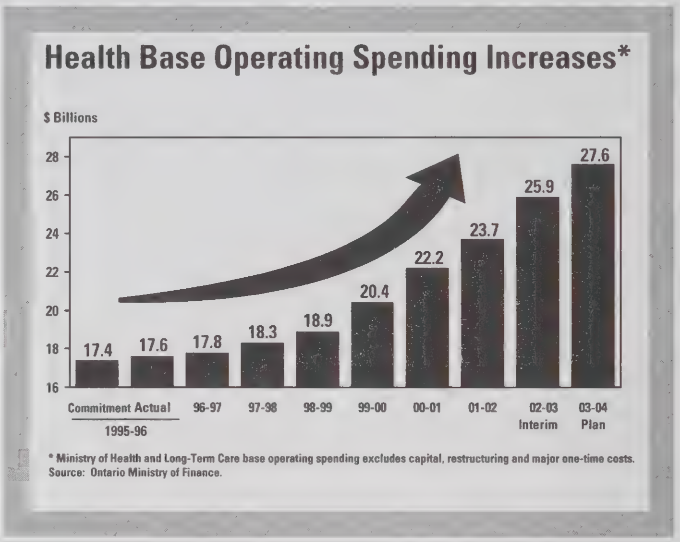
Source: Ontario Ministry of Finance.

- In 2003-04, total health care funding including both program and capital expenditures will be $28.1 billion, an increase of $1.9 billion from the 2002-03 total of $26.2 billion.
- Provincial spending on schools and post-secondary education will be $14.1 billion in 2003-04. This total includes $9.3 billion for the School Board Operating Grant, the Provincial component of school board funding; $2.9 billion in operating and capital grants for colleges and universities; and $1.9 billion for other programs, including training programs and support for students in post-secondary education, as well as Provincial expenditure related to the Teachers' Pension Plan.
- Transfer payments to the broader public sector including hospitals, school boards, colleges, universities, as well as transfers to individuals, make up over 80 per cent of Provincial expenditure excluding public debt interest costs.
- Excluding expenditure on health care, schools and post-secondary education, and the environment, Provincial spending per person has declined by about 30 per cent since 1995-96 when adjusted for inflation.
- Details of ministry operating and capital expenditure for 2003-04 and recent years can be found in the financial tables and graphs at the end of this Paper.

ONTARIO'S ONGOING COMMITMENT TO HEALTH CARE

The government has continued to increase Ontario's base operating spending on health care every year since it assumed office in 1995-96. This year, an additional $1.7 billion will be allocated for health care, bringing health operating spending to $27.6 billion in 2003-04.

- In 1999, the government promised to invest $22.7 billion in health care by 2003-04. By steadily allocating resources into this key sector, the government increased health care expenditure to $23.7 billion by 2001-02—$1 billion higher than promised and two years ahead of schedule.
- While the government remains committed to ensuring high quality health care for all Ontarians, the financing of health care is a long-term and growing challenge.



- As health care spending is not a true measure of the benefits taxpayers receive from the health care system, there is a need to do more to measure the quality of the health care system by its outputs and outcomes. The government is working with health care providers to improve the information available to the public on health care system outcomes. The availability of better information will ensure that the government and health care providers are more accountable to Ontarians for the way health care dollars are spent.

INCREASED FUNDING FOR HEALTH CARE EXCEEDING FEDERAL GOVERNMENT'S COMMITMENT

Ontario and the other provinces and territories have called on the federal government to become an equal partner in maintaining quality health care by restoring funding through the Canada Health and Social Transfer (CHST). At the February 2003 First Ministers' meeting, the federal government announced modest improvements in support of health care reform and funding sustainability, although it did not fully respond to the needs identified by all provinces and territories.

Ministry of Health and Long-Term Care Spending: Selected Years
($ Millions)

	Actual 1994-95	Interim 2002-03	Plan 2003-04	Change from Interim
Operating	17,599	25,888	27,595	1,707
Gross Capital Expenditure	249	335	504	169
Total	17,848	26,223	28,099	1,876
Increase in Total since 1994-95			**10,251**	

Source: Ontario Ministry of Finance.

- Since 1994-95, Ontario's total health care spending (operating and capital) has increased by $10.3 billion. By contrast, federal CHST transfers to Ontario by 2003-04 are expected to be only $1.3 billion more than in 1994-95.
- Following the February First Ministers' meeting, the 2003 federal budget confirmed new funding for health care, including a $2.5 billion CHST Supplement, provided to meet immediate needs. Ontario's $967 million share of the CHST Supplement has been included in 2002-03 revenue to deal with immediate needs within the province's health care system.
- Ontario's share of enhancements to federal funding for 2003-04 includes: $386 million from the Health Reform Fund for primary health care, home care and catastrophic drug coverage; $193 million from the three-year fund for diagnostic and medical equipment as well as associated training; and $771 million for a one-time CHST top-up. Federal transfers from the CHST, as well as the new Health Reform Fund and the Diagnostic and Medical Equipment Fund, are expected to increase by $143 million in 2003-04. Ontario's total health care spending for the year will increase by $1.9 billion.

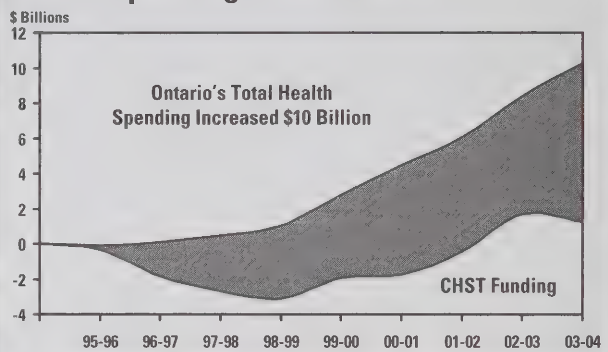
Federal Funding Gap

Federal funding for health care in Ontario, through the Canada Health and Social Transfer (CHST), was reduced by more than $3 billion after 1994-95. The federal funding gap for health care has not been closed by more recent increases in CHST payments.

CHST Funding Gap

- Starting in 1994-95, CHST payments to Ontario began a steady decline, dropping to as low as $3.6 billion in 1998-99, down more than $3 billion from $6.6 billion in 1994-95.

Change in CHST Payments and Ontario's Health Spending Since 1994-95



Source: Ontario Ministry of Finance.

- CHST revenue in 2002-03 at $8.4 billion includes Ontario's $967 million share of the recently announced CHST Supplement, as well as $482 million for an adjustment to CHST totals reported in past years. These adjustments are mainly due to Ontario representing a lower-than-expected share of the estimated Canada-wide 2001 personal and corporate income tax bases, which resulted in Ontario receiving an adjustment in 2002-03 to reflect the Province's higher-than-expected share of the fixed amount of federal CHST funding for 2000-01 and 2001-02.
- Including Ontario's share of the CHST Supplement in 2002-03 revenue is consistent with the announcement in February by the federal government that it would "immediately invest $2.5 billion in the CHST to relieve existing pressures."
- Federal transfers have been partially restored over the last number of years, but have not kept up with the rising cost of health care. In 2003-04, CHST payments to Ontario for health care, post-secondary education and social services will be only $1.3 billion more than they were in 1994-95, while total spending on health care alone has increased by $10.3 billion.

Support for Health Care, the Ontario Trillium Foundation and Communities

Provincial proceeds from gaming activities continue to support provincial priorities, including the operation of hospitals, charities, communities and the agricultural sector.

Support for Health Care, Charities and Problem Gambling Programs
($ Millions)

	Interim 2002-03	Plan 2003-04
Lotteries, Charity Casinos and Slot Machines at Racetracks Revenue		
Operation of Hospitals	1,466	1,634
Ontario Trillium Foundation	100	100
Problem Gambling and Related Programs	29	36
Commercial Casinos Revenue		
General Government Priorities	680	636
Total	**2,275**	**2,406**

Sources: Ministry of the Attorney General and Ministry of Finance.

Revenue from Lotteries, Charity Casinos and Slot Machines at Racetracks

The *Ontario Lottery and Gaming Corporation Act, 1999,* requires that net Provincial revenue generated from lotteries, charity casinos and racetrack slot machines support services such as the operation of hospitals, problem gambling and related programs, and funding for charitable organizations through the Ontario Trillium Foundation.

- In 2003-04, it is estimated that $1,634 million net revenue from lotteries, charity casinos and slot machines at racetracks will be applied to support the operation of hospitals.
- The Ontario Trillium Foundation has become one of Canada's largest grant-making foundations. In 2003-04, the Ontario Trillium Foundation will be provided with $100 million to help build strong and healthy communities by contributing to charitable and not-for-profit organizations.
- Two per cent of gross slot machine revenue, estimated at $36 million for 2003-04, is allocated to programs that support problem gambling and related treatment, prevention and research programs.

Benefits from Commercial Casinos

- In 2003-04, net Provincial revenues from commercial casinos estimated at $636 million will be used to support general government priorities including health care, education, justice and social programs.
- Since the commencement of commercial casino operations, 27,000 direct and indirect jobs have been created in Ontario. Commercial casino operations, and the additional tourists they attract, contribute an estimated $2.4 billion annually to the Ontario economy.

Support for the Agricultural Sector and Municipalities
($ Millions)

	Interim 2002-03	Plan 2003-04
Agricultural Sector	299	320
Municipalities	73	78
Total	**372**	**398**

Source: Ministry of the Attorney General.

- Twenty per cent of gross revenue from slot machines at racetracks is provided to promote economic growth of the horse-racing industry. Since 1998, this initiative has preserved and enhanced 45,000 jobs in Ontario's horse-racing industry, providing over $840 million to a key component of the Province's agricultural sector. For 2003-04, additional support is estimated at $320 million.
- A portion of gross slot machine revenue estimated at $78 million in 2003-04 will be provided to municipalities that host charity casinos and slot operations at racetracks, including funding to help offset local infrastructure and service costs.

Section III: Ontario's Capital Investments

SuperBuild Capital Investment Plan for 2003-04

The Ontario SuperBuild Corporation is responsible for the strategic management of the government's capital investment plan, including investments in the Province's own assets and transfers for capital purposes to hospitals, municipalities and post-secondary educational institutions. In 2003-04, SuperBuild will invest approximately $3.2 billion in Ontario's infrastructure.

The 2002 Budget announced that starting with the 2002-03 fiscal year, major tangible capital assets owned by the Province (land, buildings and transportation infrastructure) would be accounted for on a full accrual accounting basis. This change, which was recommended by both the independent Ontario Financial Review Commission and the Provincial Auditor, reflects a business approach to the treatment of major tangible capital assets and is consistent with Public Sector Accounting Board (PSAB) recommendations. The move to full accrual accounting for capital is reflected in the Net Investment in Capital Assets adjustment to total capital expenditure.

Gross Capital Expenditure
($ Millions)

		Plan 2003-04
Transportation		1,499
Highways	1,055	
Transit	359	
Other Transportation	85	
Health and Long-Term Care		504
Post-Secondary Education		97
Environment and Natural Resources		116
Justice		88
Municipal and Local Infrastructure		608
Other (Net)		258
Total Gross Capital Expenditure		**3,170**

Note: Total gross capital expenditure includes $429 million in flow-through funds: $126 million for Transportation, $1 million for Environment and Natural Resources, and $302 million for Municipal and Local Infrastructure. SuperBuild's gross capital expenditure excluding flow-through funds is $2.7 billion.

Source: Ontario Ministry of Finance.

- Through the Ministry of Transportation and the Ministry of Northern Development and Mines, the Province will invest $1,055 million in highway planning, expansion and rehabilitation in 2003-04. The Province will also provide $359 million in transit assistance through the Transit Investment Plan, which includes GO Transit, inter-regional transit through the Golden Horseshoe Transit Investment Partnerships (GTIP)/Transit Investment Partnerships (TIP) and the renewal of municipal transit systems through the Transit Renewal Program. An additional $85 million will support other transportation initiatives such as the Connecting Links Program, ferries and remote airport upgrades.
- The Ministry of Health and Long-Term Care will invest $504 million in hospitals, community health and long-term care capital initiatives in 2003-04. This will enable hospitals and other health care providers to continue to modernize, retrofit and expand their infrastructure and services across the province.
- The Province is investing $97 million in post-secondary education capital this year. This funding includes $20 million through the Apprenticeship Enhancement Fund and the College Equipment and Renewal Fund to enable colleges to acquire more up-to-date equipment and learning resources. The funding also includes $18 million of the government's three-year, $33 million commitment to establish the Northern Ontario Medical School with campuses in Sudbury and Thunder Bay.
- Investment for environmental purposes will be $116 million in 2003-04, which will include $45 million for upgrades to drinking water systems and other infrastructure at Ontario Parks and $15 million for environmental clean-up projects. The Province is also investing $15 million for ongoing implementation of Ontario's Living Legacy, $7 million for watershed-based source protection and $5 million to improve Conservation Authority dams.
- The Province is investing $88 million in 2003-04 primarily to complete current court and correctional facilities construction and expansion projects as well as for smaller repair and rehabilitation projects. Expansion work will also continue at the Ontario Police College.
- The capital plan includes other initiatives totalling $258 million, including biotechnology programs, technological education and other capital programs.

$608 Million for Municipal and Local Infrastructure

SuperBuild continues to make investments in municipal partnership initiatives. Of the $3.2 billion SuperBuild plans to invest in 2003-04, $608 million is for municipal and local infrastructure, including the Toronto Waterfront Revitalization, Millennium Partnerships strategic investments in major urban areas, the capital portion of the Ontario Small Town and Rural Infrastructure (OSTAR) initiative, the Sports, Culture and Tourism Partnerships (SCTP) initiative, the Affordable Housing Program and the Northern Ontario Heritage Fund. This amount includes $302 million of federal flow-through transfers.

Section IV: Strengthening Our Partnerships

Transfers to hospitals, school boards, colleges and universities account for about 40 per cent of total provincial government program spending. To ensure that these funds are used effectively and efficiently, productive partnerships need to be strengthened between the government and the institutions that provide these important services, on which the public depends.

The 2002 Throne Speech and the 2002 Budget signalled the government's intent to develop a model of Multi-Year Base Funding (MYBF) for school boards, hospitals, colleges and universities that ensures accessibility and enhances accountability. The intent was to provide a measure of funding stability for these organizations to allow for better planning and better services.

This Budget takes two important first steps towards such a model:

- it provides funding commitments for 2003-04, 2004-05 and 2005-06; and
- it presents a policy framework for the development of MYBF (see Budget Paper F: *Progress Through Partnership*).

MYBF is intended to reflect the cost of continuing core services based on current projections of service volumes and other funding decisions. Projected base targets are an important step in providing dependable funding to support service stability. Based on the government's current commitments, the targets indicate that school boards, colleges, universities and hospitals can plan on receiving no less than the amounts announced in this Budget.

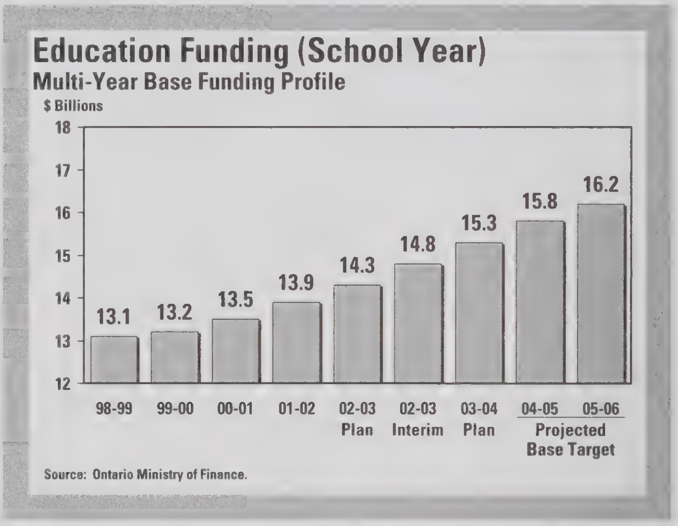
These funding commitments represent a cautious and prudent approach to MYBF that will evolve and adapt to varying economic circumstances and priorities. In developing MYBF, enhancements to funding must be supported by a better understanding of the results of spending and enhanced accountability to taxpayers by all public-sector bodies. The government is committed to developing and improving the measures and mechanisms needed to demonstrate performance in these sectors.

In addition, the government is inviting municipalities to participate in a dialogue on a new multi-year approach to municipal funding. The government is providing a sound basis for these discussions by committing to increased funding for municipalities over the next three years.

School Boards

The government is committed to a strong, publicly funded primary and secondary education system. Since the introduction of Student-Focused Funding in 1998-99, overall annual funding available to school boards in the form of direct transfers from the Province and education property tax revenues has increased by more than $1.7 billion to $14.8 billion in 2002-03.

In 2002-03, the government established the Education Equality Task Force under the leadership of Dr. Mordechai Rozanski to review Student-Focused Funding to ensure that it continues to meet the needs of students in Ontario. In December 2002, the government announced a $610 million package on a school-year basis to support the implementation of the recommendations that the Education Equality Task Force identified as a priority. On a fiscal-year basis, this early response increased funding provided to school boards by $349 million in-year, bringing direct Provincial transfers to school boards to $8.7 billion in 2002-03.



- In the 2003-04 school year, the funding commitment to school boards, including property tax revenues, will rise to $15.3 billion. For the 2005-06 school year, the projected base target is $16.2 billion, representing a 14 per cent increase over the 2002-03 Plan level.
- The 2003-04 funding commitment and projected funding for 2004-05 and 2005-06 reflect estimated primary and secondary student enrolment in these years and additional funding to address the remaining recommendations of the Education Equality Task Force, including enhancements to cost benchmarks within the Student-Focused Funding formula. For additional details on multi-year funding, see Budget Paper F: *Progress Through Partnership.*
- Given modest growth projected for education property taxes, these enhancements will be financed primarily through increases in direct transfers from the Province. On a fiscal-year basis, the School Board Operating Grant is projected to increase from $9.3 billion in 2003-04 to $10.1 billion by 2005-06.
- Overall education spending will be increasing over the medium term even though enrolment is projected to decline from 2.0 million in 2002-03 to 1.9 million by 2005-06.

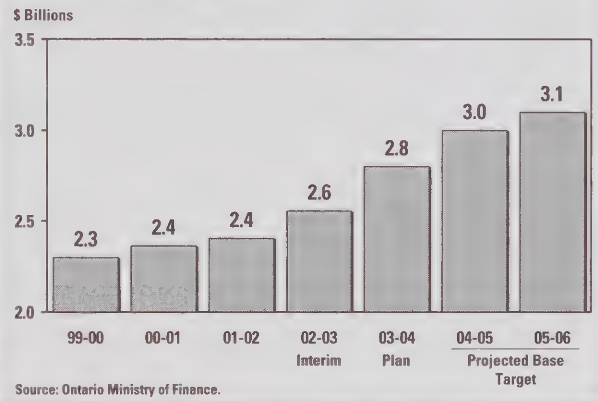
Colleges and Universities

This is a period of unprecedented enrolment growth in the post-secondary education sector, driven by secondary-school reform, a rising population and increasing demand for advanced education. In response, the government is building on previous measures to ensure that Ontario's post-secondary education sector remains accessible to every willing and qualified Ontario student.

For 2003-04, the government is increasing its operating grants to colleges and universities to \$2.8 billion. This increase will address overall enrolment growth, as well as provide transitional and operating funding for the creation of the Northern Ontario Medical School. Total funding to colleges and universities, including program-specific and operating grants, will be \$3.1 billion in 2003-04.

- In the 2001 Budget, the government made a commitment to increase post-secondary-education funding on a multi-year basis to address anticipated enrolment growth as a result of secondary-school reform and demographic changes. With further enhancements announced in the 2002 and 2003 Budgets, operating grants to colleges and universities will be \$443 million higher in 2003-04 than they were in 2000-01. This is \$75 million over the commitment announced for 2003-04 in the 2002 Budget.

Operating Grants to Colleges and Universities
Multi-Year Base Funding Profile



Source: Ontario Ministry of Finance.

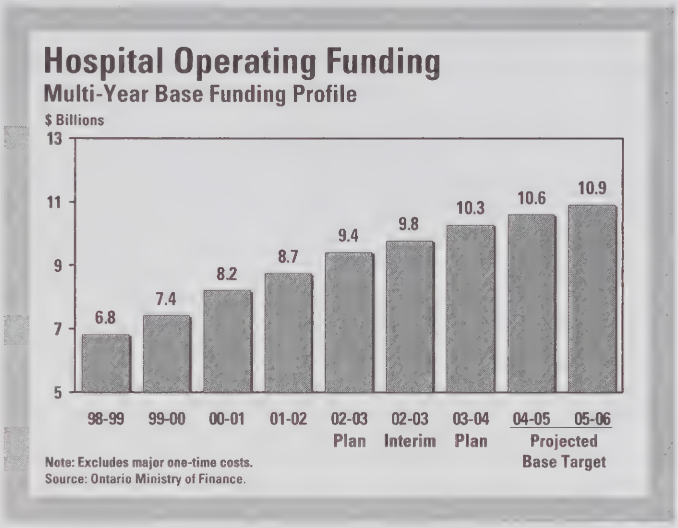
- The government is also extending its operating grant funding commitment and providing projected base funding levels for colleges and universities in 2004-05 and 2005-06. The projected funding for 2005-06 is \$3.1 billion, up by more than \$500 million or 21 per cent over the 2002-03 Plan level. For additional details on multi-year funding, see Budget Paper F: *Progress Through Partnership*.

- To make the investments that will enhance the quality of education for students over the double-cohort period, Ontario is establishing Quality Assurance Funds in each post-secondary sector. The government will provide the college fund with $60 million in 2003-04, and the fund will rise each year, reaching $100 million in 2006-07. The government will provide the university fund with $75 million in 2003-04, and the fund will rise each year, reaching $200 million in 2006-07. The Province will work with post-secondary institutions, faculty and students to develop a performance measurement framework that will govern the funds.
- The government continues to support the creation of the Northern Ontario Medical School by providing $19 million in transitional and operating funding in 2003-04. Through SuperBuild, the government is also providing $33 million over three years to establish two campuses, one in Sudbury and another in Thunder Bay.

Hospitals

Since 1998-99, Provincial operating grants to hospitals have increased by 50 per cent. The government and the hospital sector continue to work together to better address the changing and rising cost of caring for patients.

- In 2003-04, hospital base operating grants will be $10.3 billion, a five per cent increase over the 2002-03 interim level and a 10.4 per cent increase over the 2002 Budget level. Total grants to hospitals, including an additional $130 million one-time funding for diagnostic and medical equipment, will be $10.4 billion, an increase of 6.3 per cent over the 2002-03 interim level.



- Projected base target funding will rise to $10.6 billion in 2004-05 and $10.9 billion in 2005-06, resulting in an increase of 16 per cent over the level of support announced for 2002-03 in the 2002 Budget prior to the Third-Party Review of hospital finances. The projected base targets for 2004-05 and 2005-06 reflect annual increases of three per cent to deal with volume growth driven by demographic changes and service enhancements. For additional details on multi-year funding, see Budget Paper F: *Progress Through Partnership*.

- The demographic growth projection is consistent with estimates provided in the Ontario Hospital Association's paper *Stability and Sustainability: A Multi-Year Funding Policy Framework for Ontario Hospitals,* released in 2002.

- The challenge for the hospital sector is to improve patient satisfaction over the next three years and work towards increased certainty in projecting service requirements over the next few years. As part of the proposed multi-year base funding policy framework, accountability standards would require all hospitals to demonstrate that enhancements in funding will translate into enhancements in services.

Section V: Medium-Term Outlook

Consistent with the *Balanced Budget Act, 1999,* Ontario's medium-term forecast is for a balanced budget in 2004-05.

Medium-Term Fiscal Outlook
($ Billions)

	Actual 2001-02	Interim 2002-03	Plan 2003-04	Forecast 2004-05
Revenue	63.9	66.4	71.6	73.4
Expenditure				
Programs	52.5	55.3	59.4	61.2
Gross Capital Expenditure	1.9	2.5	3.2	3.2
Less: Net Investment in Capital Assets*	-	0.6	0.7	0.7
Public Debt Interest				
Provincial	8.5	8.2	8.2	8.2
Electricity Sector	0.5	0.5	0.5	0.5
Total Expenditure	63.4	65.9	70.6	72.4
Less: Reserve	-	-	1.0	1.0
Add: Decrease/(Increase) in Stranded Debt from Electricity Sector Restructuring to be Recovered from Ratepayers**	(0.1)	-	-	-
Surplus / (Deficit)	**0.4**	**0.5**	**0.0**	**0.0**

Note: Numbers may not add due to rounding.

* Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expenditure in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

** Reflects the estimated excess of revenue over expenditure of the Ontario Electricity Financial Corporation (OEFC). Consistent with the principles of electricity restructuring, OEFC debt is to be recovered from ratepayers, not taxpayers.

Source: Ontario Ministry of Finance.

- The projected balanced budget for 2004-05 includes a $1 billion reserve to protect the fiscal plan against unexpected and adverse changes in the economic and fiscal outlook. The reserve will be available for debt reduction if not needed.

Conclusion

In 2002-03 Ontario balanced its budget for the fourth consecutive year. The Province is on track for a further balanced budget in 2003-04.

With the resumption of strong economic growth in 2002 and the foundation for growth in 2003 and the medium term, Ontario is able to address the needs in key sectors such as health care, schools, post-secondary education and the environment, while continuing to meet its commitment to balance the budget on an ongoing basis.

LIST OF FINANCIAL TABLES AND GRAPHS

Financial Tables

Graphs

Statement of Financial Transactions **Table B1**
($ Millions)

	Actual 1999-00	Actual 2000-01	Actual 2001-02	Interim 2002-03	Plan 2003-04
Revenue	62,931	63,824	63,886	66,391	71,566
Expenditure					
Programs	47,525	50,401	52,523	55,271	59,390
Gross Capital Expenditure	4,887	2,123	1,890	2,467	3,170
Less: Net Investment in Capital Assets*	-	-	-	576	702
Public Debt Interest					
Provincial	8,977	8,896	8,509	8,225	8,188
Electricity Sector	520	520	520	520	520
Total Expenditure	61,909	61,940	63,442	65,907	70,566
Less: Reserve	-	-	-	-	1,000
Add: Decrease/(Increase) in Stranded Debt from Electricity Sector Restructuring to be Recovered from Ratepayers**	(354)	18	(69)	40	-
Surplus / (Deficit)* **	**668**	**1,902**	**375**	**524**	**0**
Net Provincial Debt after Provisional Adjustment for CCRA Error; and Accounting Changes†	113,715	112,480	112,036	98,352	98,352
Accounting Changes (included in Net Provincial Debt above)					
Provisional Adjustment for CCRA Error		(2,043)	(2,043)	(2,043)	
Retirement Benefits		197	197	197	
Tangible Capital Assets‡				13,200	
Net Impact of Accounting Changes		(1,846)	(1,846)	11,354	11,354
Net Provincial Debt - Before Provisional Adjustment for CCRA Error; and Accounting Changes	**113,715**	**110,634**	**110,190**	**109,706**	**109,706**

* Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expenditure in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

** Reflects the estimated excess of revenue over expenditure of the Ontario Electricity Financial Corporation (OEFC). Consistent with the principles of electricity restructuring, OEFC debt is to be recovered from ratepayers, not taxpayers.

*** Includes provisional adjustment for Canada Customs and Revenue Agency error; retirement benefits accounting policy change in accordance with new Public Sector Accounting Board recommendations; and adjustment to decrease in stranded debt from electricity sector restructuring to be recovered from ratepayers.

† Starting in 2002-03 Net Provincial Debt has been adjusted to include Investment in Capital Assets. For all other years, Net Provincial Debt represents total liabilities less financial assets.

‡ Estimated opening net book value at April 1, 2002.

Revenue **Table B2**
($ Millions)

	Actual 1999-00	Actual 2000-01	Actual 2001-02	Interim 2002-03	Plan 2003-04
Taxation Revenue					
Personal Income Tax	17,617	17,911	19,097	18,800	19,905
Retail Sales Tax	12,879	13,735	13,803	14,090	14,885
Corporations Tax	8,095	9,200	6,646	6,520	6,845
Employer Health Tax	3,118	3,424	3,502	3,590	3,805
Gasoline Tax	2,154	2,172	2,192	2,300	2,365
Fuel Tax	665	648	659	685	710
Tobacco Tax	481	504	703	1,215	1,260
Land Transfer Tax	565	642	665	825	785
Other Taxation	307	333	371	376	195
	45,881	**48,569**	**47,638**	**48,401**	**50,755**
Government of Canada					
Canada Health and Social Transfer (CHST)	4,722	4,895	6,211	7,386	7,146
New CHST Supplements	-	-	-	967	771
Social Housing	466	541	524	526	643
Health Reform Fund	-	-	-	-	386
Infrastructure	19	2	-	118	285
Diagnostic and Medical Equipment Fund	-	190	190	-	193
Other	678	501	829	697	753
	5,885	**6,129**	**7,754**	**9,694**	**10,177**
Income from Government Enterprises					
Ontario Lottery and Gaming Corporation	1,924	2,181	2,255	2,275	2,406
Liquor Control Board of Ontario	845	877	904	953	1,123
Ontario Power Generation Inc. and Hydro One Inc.	903	783	179	650	884
Other	36	14	7	11	3
	3,708	**3,855**	**3,345**	**3,889**	**4,416**
Other Revenue					
Sales and Rentals	2,133	637	303	321	2,207
Vehicle and Driver Registration Fees	911	929	941	963	952
Local Services Realignment - Reimbursement of Expenditure	1,678	1,407	1,116	707	711
Other Fees and Licences	667	660	627	671	677
Reimbursements	264	402	476	470	503
Liquor Licence Revenue	539	525	530	528	477
Royalties	345	235	224	237	225
Independent Electricity Market Operation Revenue	314	344	384	171	153
Other Miscellaneous Revenue	606	132	548	339	313
	7,457	**5,271**	**5,149**	**4,407**	**6,218**
Total Revenue	**62,931**	**63,824**	**63,886**	**66,391**	**71,566**

Operating Expenditure **Table B3**
($ Millions)

Ministry	Actual 1999-00	Actual 2000-01	Actual 2001-02	Interim 2002-03	Plan 2003-04
Agriculture and Food	347	401	456	602	622
One-Time and Extraordinary Costs	-	233	319	28	-
Attorney General	846	957	983	1,030	1,024
Board of Internal Economy	154	116	124	138	129
Citizenship	95	77	71	72	76
Community, Family and Children's Services	7,512	7,620	7,742	7,969	8,281
Consumer and Business Services	134	155	172	179	179
Culture	214	236	279	263	269
Education	7,704	7,961	8,354	9,058	9,716
Phase-in Funding	268	-	-	-	-
Teachers' Pension Plan (TPP)	(363)	(402)	42	296	306
Energy	329	344	367	120	127
Enterprise, Opportunity and Innovation	192	201	222	231	309
Environment	174	190	265	250	266
Executive Offices	19	21	19	21	20
Finance—Own Account	270	558	576	500	612
Public Debt Interest					
Provincial	8,977	8,896	8,509	8,225	8,188
Electricity Sector	520	520	520	520	520
Support for Children and Seniors	278	284	326	282	674
Community Reinvestment Fund	521	561	557	624	649
Provision for Electricity Sector	383	263	-	130	23
Health and Long-Term Care	20,373	22,184	23,713	25,888	27,595
Major One-Time Health Care Costs	286	487	190	-	-
Intergovernmental Affairs	4	4	4	4	5
Labour	101	104	110	118	120
Management Board Secretariat	147	145	263	223	336
Retirement Benefits	(165)	(33)	63	(131)	218
Contingency Fund	-	-	-	-	762
OPS Employee Severance (Net)	88	-	(17)	-	-
Municipal Affairs and Housing	1,665	1,792	1,135	646	688
Native Affairs Secretariat	15	16	13	17	15
Natural Resources	460	417	438	464	450
Northern Development and Mines	67	69	75	76	77
Office of Francophone Affairs	3	4	5	3	4
Public Safety and Security	1,379	1,500	1,601	1,782	1,601
Tourism and Recreation	153	124	144	140	147
Training, Colleges and Universities	3,285	3,219	3,248	3,451	3,994
Transportation	587	593	664	797	796
Program Review and Evaluation	-	-	-	-	(500)
Year-End Savings	-	-	-	-	(200)
Total Operating Expenditure	**57,022**	**59,817**	**61,552**	**64,016**	**68,098**

Gross Capital Expenditure **Table B4**
($ Millions)

Ministry	Actual 1999-00	Actual 2000-01	Actual 2001-02	Interim 2002-03	Plan 2003-04
Agriculture and Food	1	1	29	67	1
Attorney General	62	42	46	51	35
Community, Family and Children's Services	20	14	31	24	13
Consumer and Business Services	-	-	-	1	1
Culture	72	18	14	49	106
Education	52	4	17	10	16
Energy	156	86	50	40	30
Enterprise, Opportunity and Innovation	500	-	19	25	46
Environment	1	5	19	14	14
Water Protection Fund	160	17	1	1	1
Finance—Own Account	7	7	11	8	6
SuperBuild Millennium Partnerships	-	4	-	4	52
Contingency Fund	-	-	-	-	200
Health and Long-Term Care	338	182	205	335	504
Major One-Time Capital Costs	1,004	140	-	-	-
Management Board Secretariat	13	24	28	44	15
Municipal Affairs and Housing	(10)	-	12	26	304
Native Affairs Secretariat	7	5	3	3	3
Natural Resources	96	65	70	78	91
Northern Development and Mines	267	356	371	391	347
Public Safety and Security	124	99	88	67	53
Tourism and Recreation	159	14	9	58	50
Training, Colleges and Universities	1,028	204	49	74	98
Transportation	830	836	818	1,097	1,284
Year-End Savings	-	-	-	-	(100)
Total Gross Capital Expenditure*	**4,887**	**2,123**	**1,890**	**2,467**	**3,170**
Less: Net Investment in Capital Assets**	-	-	-	576	702
Net Capital Expenditure	4,887	2,123	1,890	1,891	2,468

* Gross Capital Expenditure includes the following: i) acquisition or construction of major tangible capital assets owned by the Province (land, buildings and transportation infrastructure) and other tangible capital assets; ii) repairs and maintenance; and iii) transfers for capital purposes. Total gross capital expenditure in 2003-04 includes $429 million in flow-through funds. Gross capital expenditure excluding flow-through funds is $2.7 billion.

** Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expenditure in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

Schedule of Net Investment in Capital Assets **Table B5**
($ Millions)

	Plan 2003-04			
	Land and Buildings	Transportation Infrastructure	Government Organizations' Capital Assets	Total
Acquisition/Construction of Major Tangible Capital Assets	133	1,042	346	1,521
Amortization of Provincially Owned Major Tangible Capital Assets	(110)	(546)	(163)	(819)
Net Investment in Capital Assets*	**23**	**496**	**183**	**702**

* Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expenditure in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

Transfers for Capital Purposes (Included in Gross Capital Expenditure) Table B6
($ Millions)

Ministry	Plan 2003-04
Community, Family and Children's Services	13
Culture	61
Education	10
Enterprise, Opportunity and Innovation	46
Environment	11
Water Protection Fund	1
Finance—Own Account	-
SuperBuild Millennium Partnerships	52
Health and Long-Term Care	479
Municipal Affairs and Housing	302
Native Affairs Secretariat	3
Natural Resources	5
Northern Development and Mines	105
Tourism and Recreation	46
Training, Colleges and Universities	97
Transportation	187
Total Transfers for Capital Purposes	**1,418**

Ten-Year Review of Selected Financial and Economic Statistics
($ Millions)

	1994-95	1995-96	1996-97
Financial Transactions			
Revenue	46,039	49,473	49,450
Expenditure			
Programs	44,505	46,163	45,136
Gross Capital Expenditure	3,831	3,635	2,612
Less: Net Investment in Capital Assets*	-	-	-
Public Debt Interest			
Provincial	7,832	8,475	8,607
Electricity Sector	-	-	-
Total Expenditure	56,168	58,273	56,355
Less: Reserve	-	-	-
Add: Decrease/(Increase) in Stranded Debt from Electricity Sector Restructuring to be Recovered from Ratepayers**	-	-	-
Surplus / (Deficit)* **	**(10,129)**	**(8,800)**	**(6,905)**
Net Provincial Debt after Provisional Adjustment for CCRA Error; and Accounting Changes †	90,728	101,864	108,769
Accounting Changes (included in Net Provincial Debt above)			
Provisional Adjustment for CCRA Error			
Retirement Benefits			
Tangible Capital Assets ‡			
Net Impact of Accounting Changes			
Net Provincial Debt—Before Provisional Adjustment for CCRA Error; and Accounting Changes	**90,728**	**101,864**	**108,769**
Gross Domestic Product (GDP) at Market Prices	311,096	329,317	338,173
Personal Income	260,671	271,397	276,303
Population—July (000s)	10,828	10,965	11,101
Net Provincial Debt per Capita (dollars)	8,379	9,290	9,798
Personal Income per Capita (dollars)	24,074	24,751	24,890
Total Expenditure as a per cent of GDP	18.1	17.7	16.7
Public Debt Interest as a per cent of Revenue	17.0	17.1	17.4
Net Provincial Debt as a per cent of GDP	29.2	30.9	32.2

* Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expenditure in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

** Reflects the estimated excess of revenue over expenditure of the Ontario Electricity Financial Corporation (OEFC). Consistent with the principles of electricity restructuring, OEFC debt is to be recovered from ratepayers, not taxpayers.

*** Includes provisional adjustment for Canada Customs and Revenue Agency error; retirement benefits accounting policy change in accordance with new Public Sector Accounting Board recommendations; and adjustment to decrease in stranded debt from electricity sector restructuring to be recovered from ratepayers.

† Starting in 2002-03 Net Provincial Debt has been adjusted to include Investment in Capital Assets. For all other years, Net Provincial Debt represents total liabilities less financial assets.

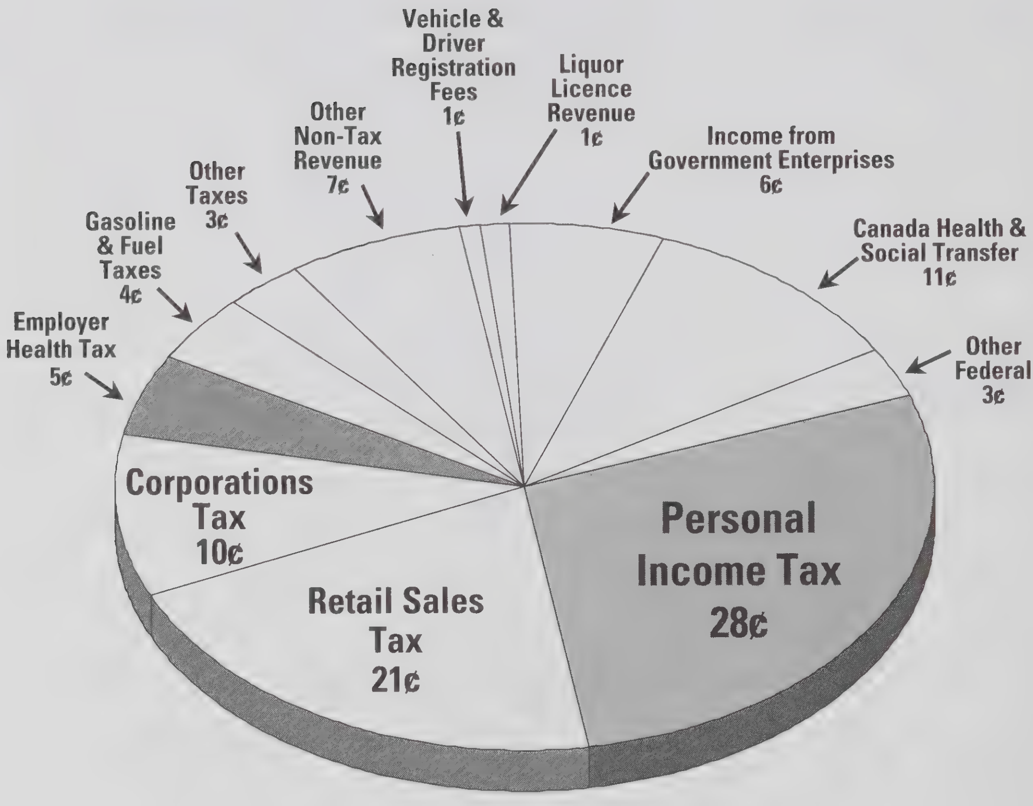
‡ Estimated opening net book value at April 1, 2002.

Sources: Ontario Ministry of Finance and Statistics Canada.

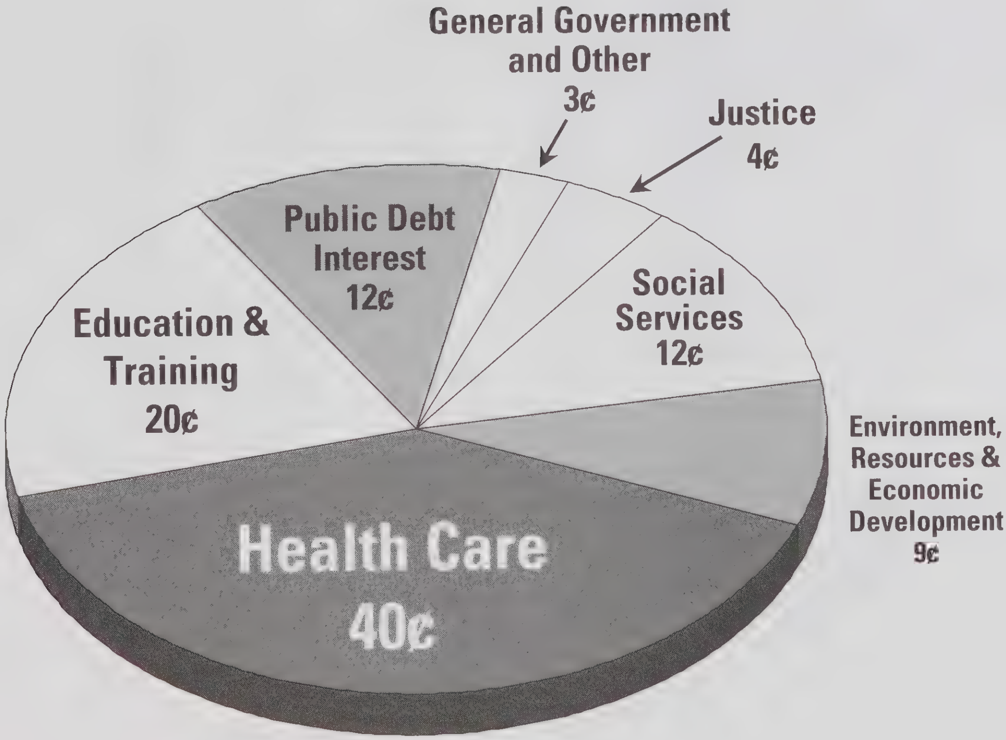
Table B7

1997-98	1998-99	1999-00	2000-01	Actual 2001-02	Interim 2002-03	Plan 2003-04
52,518	55,786	62,931	63,824	63,886	66,391	71,566
45,304	46,557	47,525	50,401	52,523	55,271	59,390
2,451	2,215	4,887	2,123	1,890	2,467	3,170
-	-	-	-	-	576	702
8,729	9,016	8,977	8,896	8,509	8,225	8,188
-	-	520	520	520	520	520
56,484	57,788	61,909	61,940	63,442	65,907	70,566
-	-	-	-	-	-	1,000
-	-	(354)	18	(69)	40	-
(3,966)	**(2,002)**	**668**	**1,902**	**375**	**524**	**0**
112,735	114,737	113,715	112,480	112,036	98,352	98,352
			(2,043)	(2,043)	(2,043)	
			197	197	197	
					13,200	
			(1,846)	(1,846)	11,354	11,354
112,735	**114,737**	**113,715**	**110,634**	**110,190**	**109,706**	**109,706**
359,353	377,897	409,099	433,446	443,852	466,651	491,098
289,537	304,652	322,549	346,738	359,927	370,522	391,075
11,249	11,387	11,528	11,698	11,895	12,068	12,226
10,022	10,076	9,864	9,615	9,419	8,150	8,044
25,739	26,754	27,980	29,641	30,259	30,703	31,987
15.7	15.3	15.1	14.3	14.3	14.1	14.4
16.6	16.2	15.1	14.8	14.1	13.2	12.2
31.4	30.4	27.8	26.0	25.2	21.1	20.0

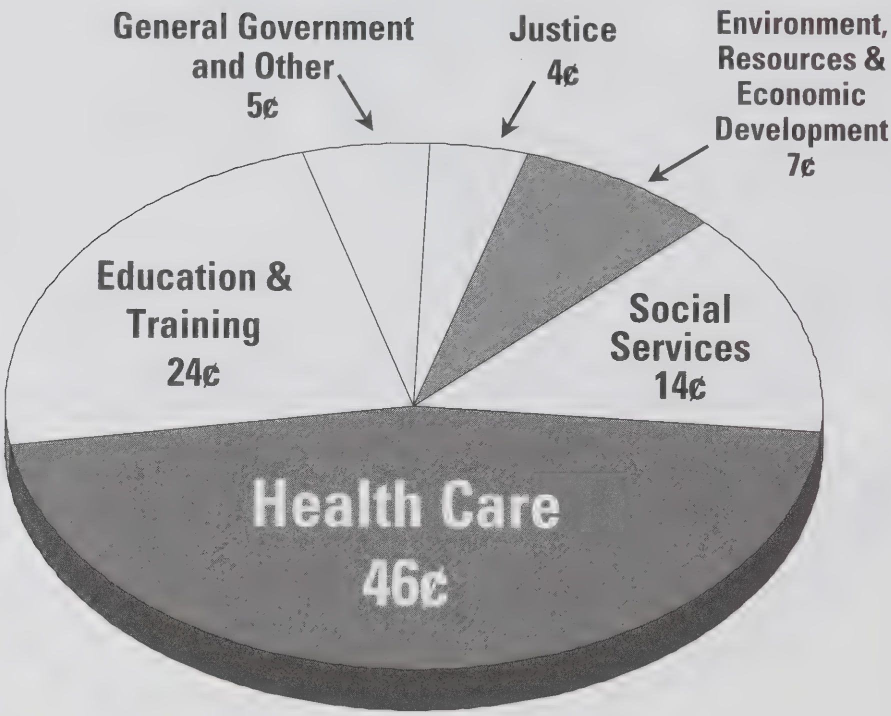
The Budget Dollar
Revenue
2003-04



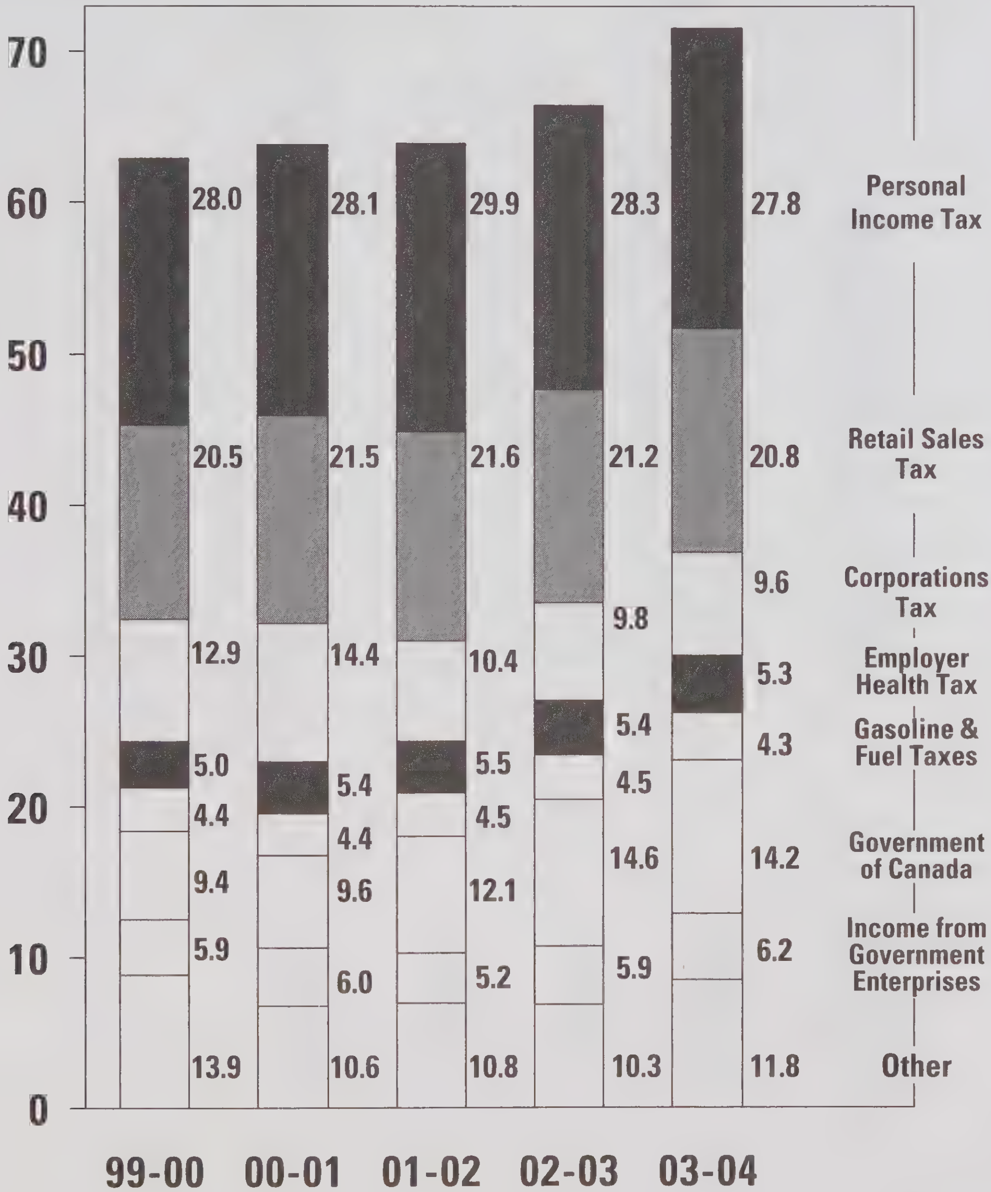
The Budget Dollar
Total Expenditure
2003-04



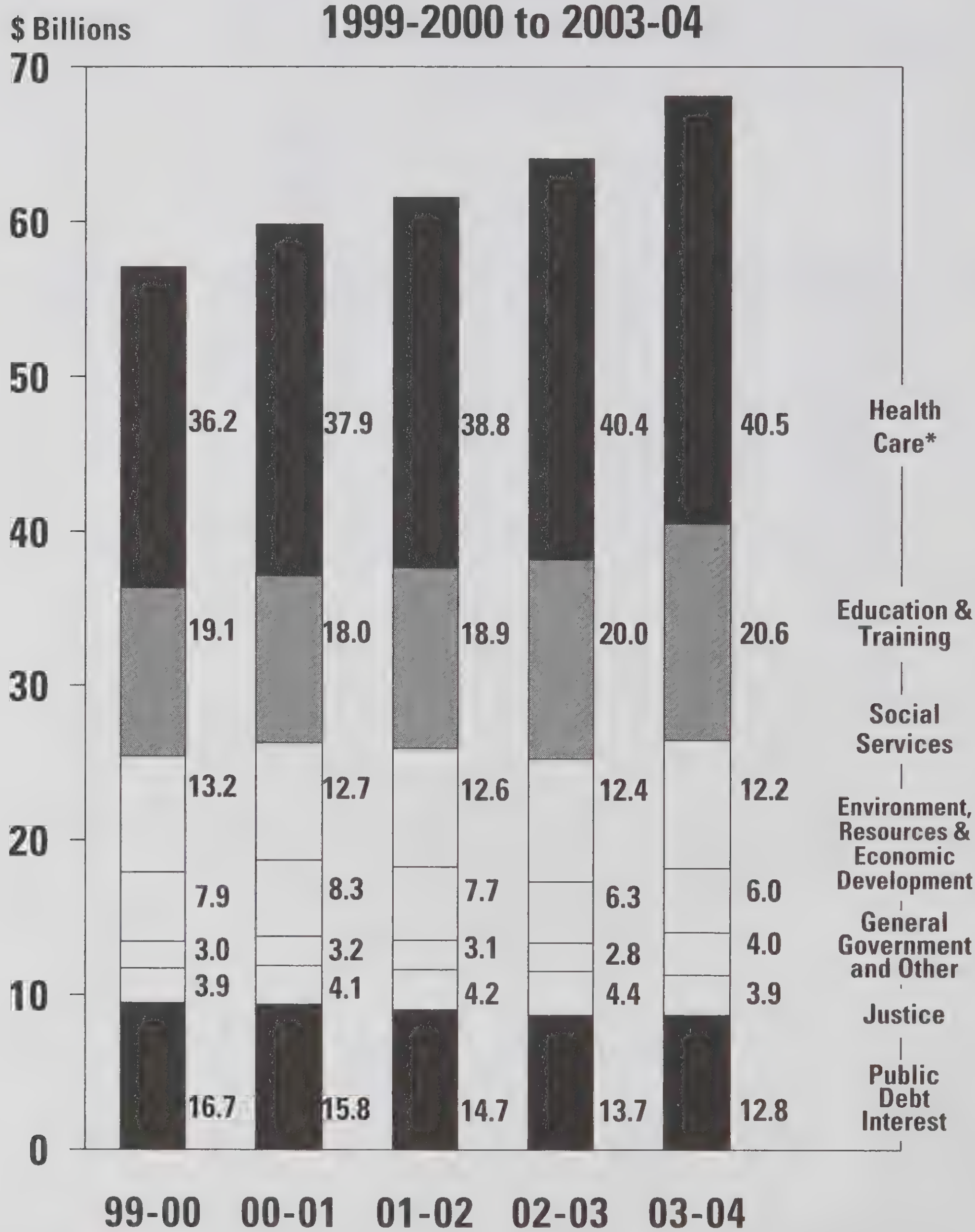
The Budget Dollar
Program Expenditure
2003-04



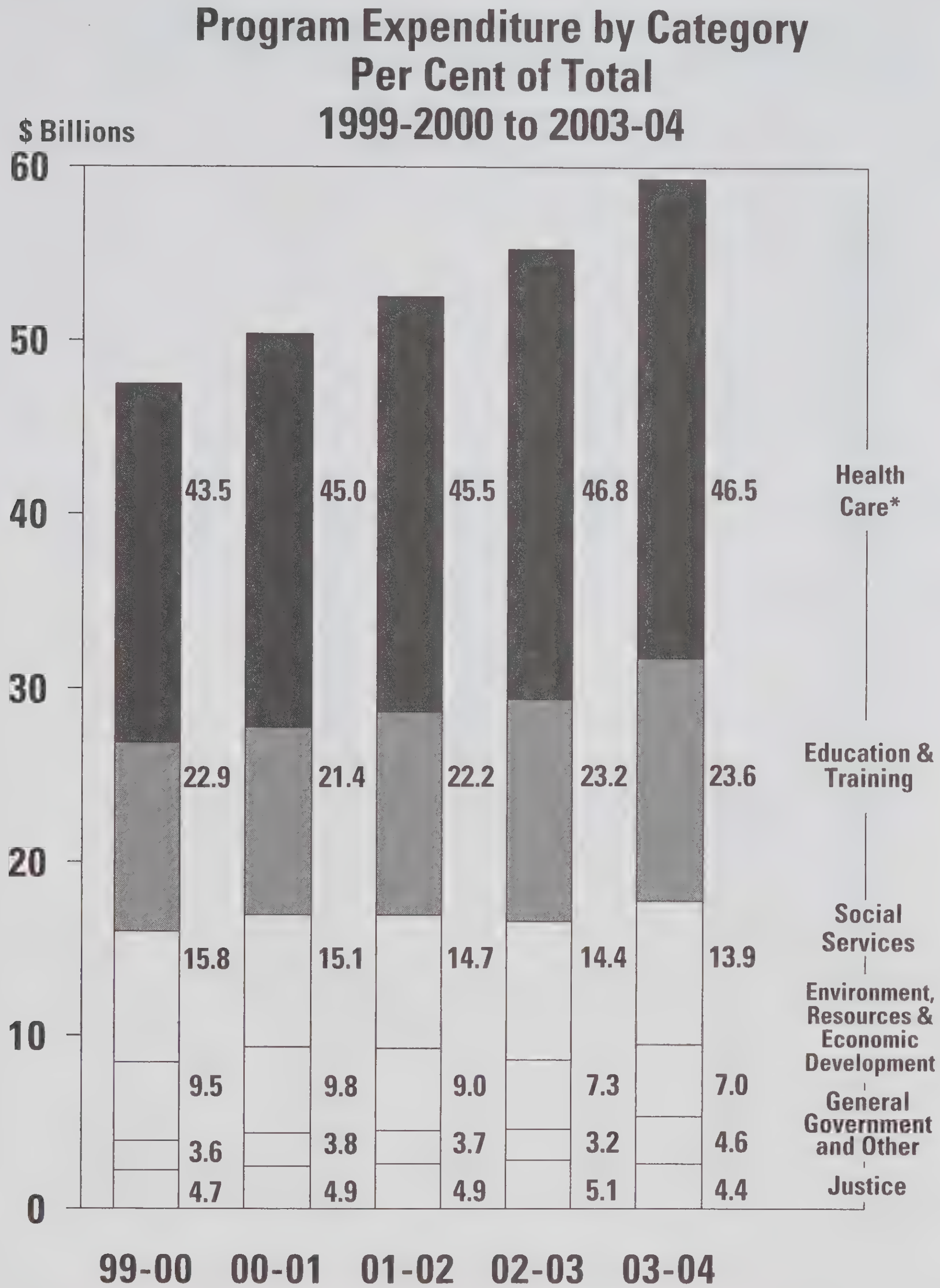
Revenue Sources by Category Per Cent of Total 1999-2000 to 2003-04



Operating Expenditure by Category
Per Cent of Total
1999-2000 to 2003-04

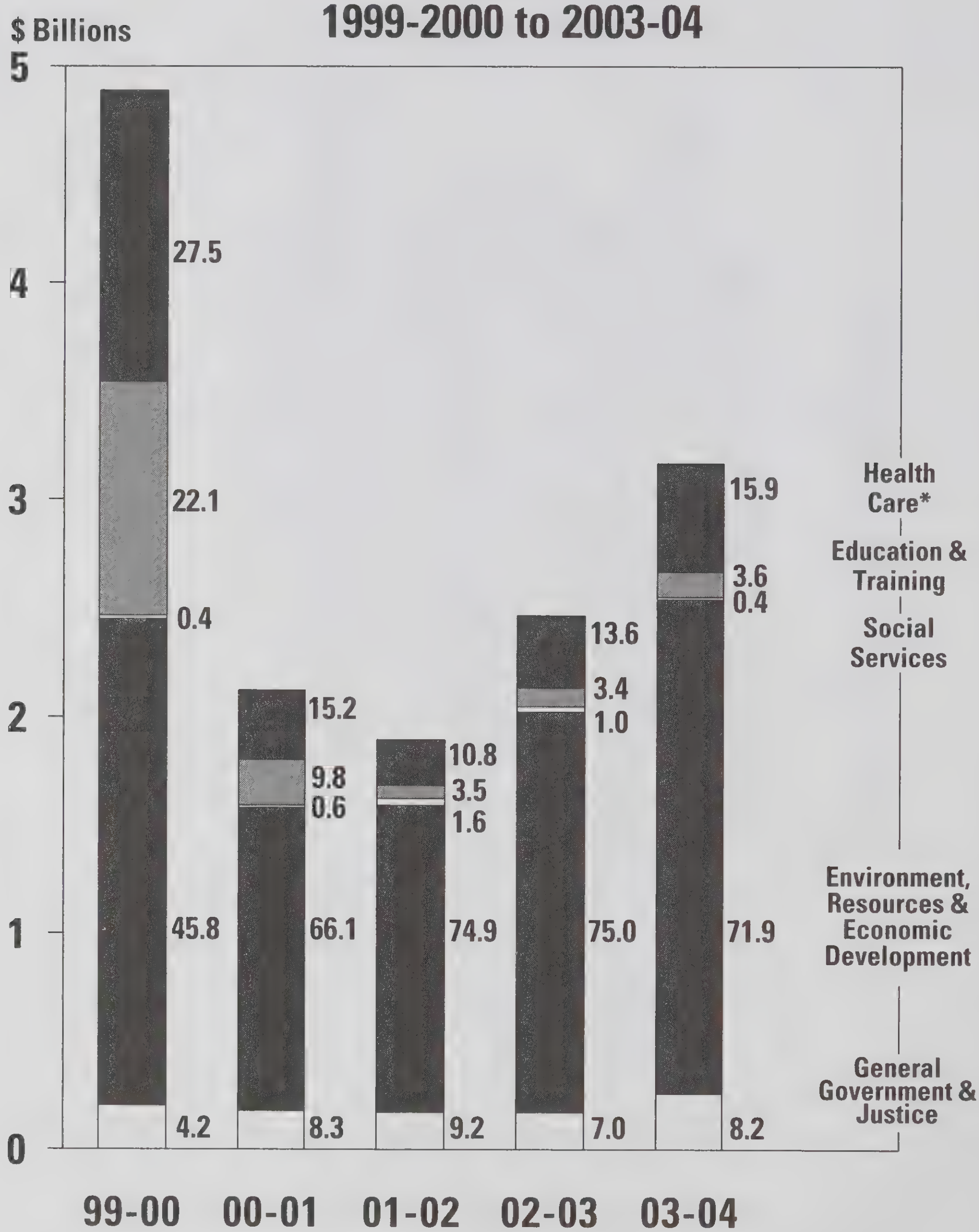


* Includes Major One-Time Health Care Costs and Health Care Restructuring.



* Includes Major One-Time Health Care Costs and Health Care Restructuring.

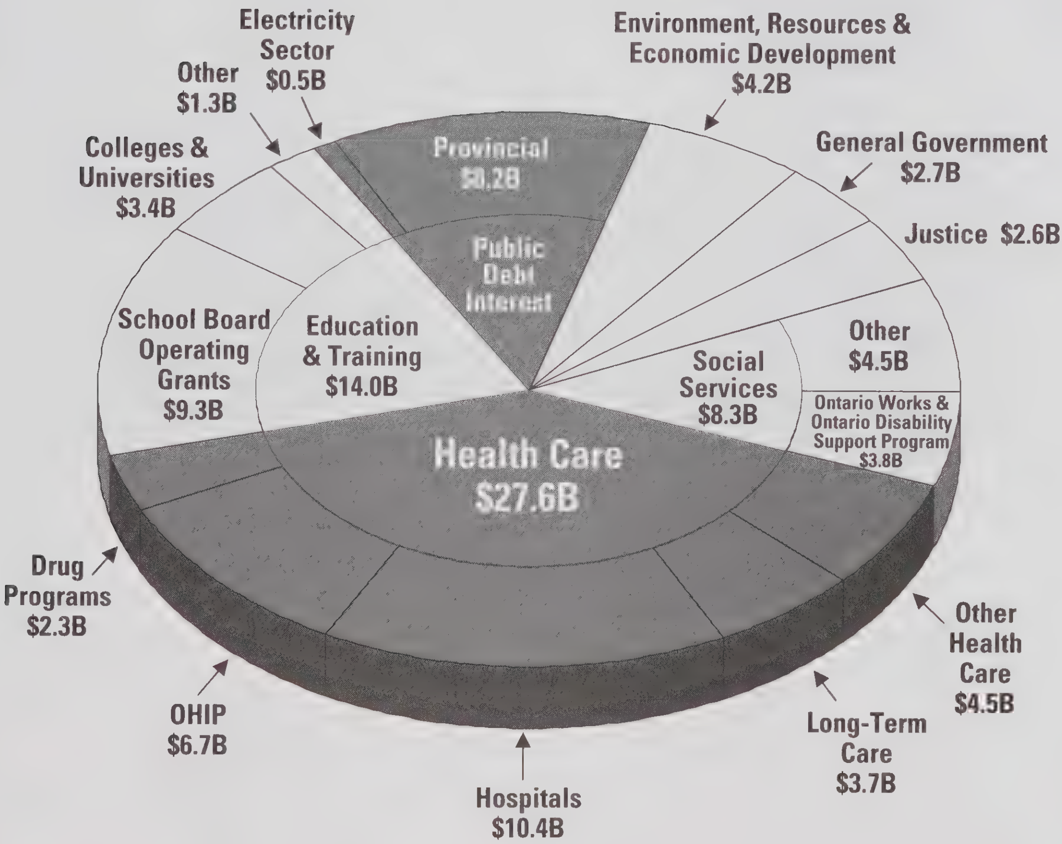
Gross Capital Expenditure by Category Per Cent of Total 1999-2000 to 2003-04



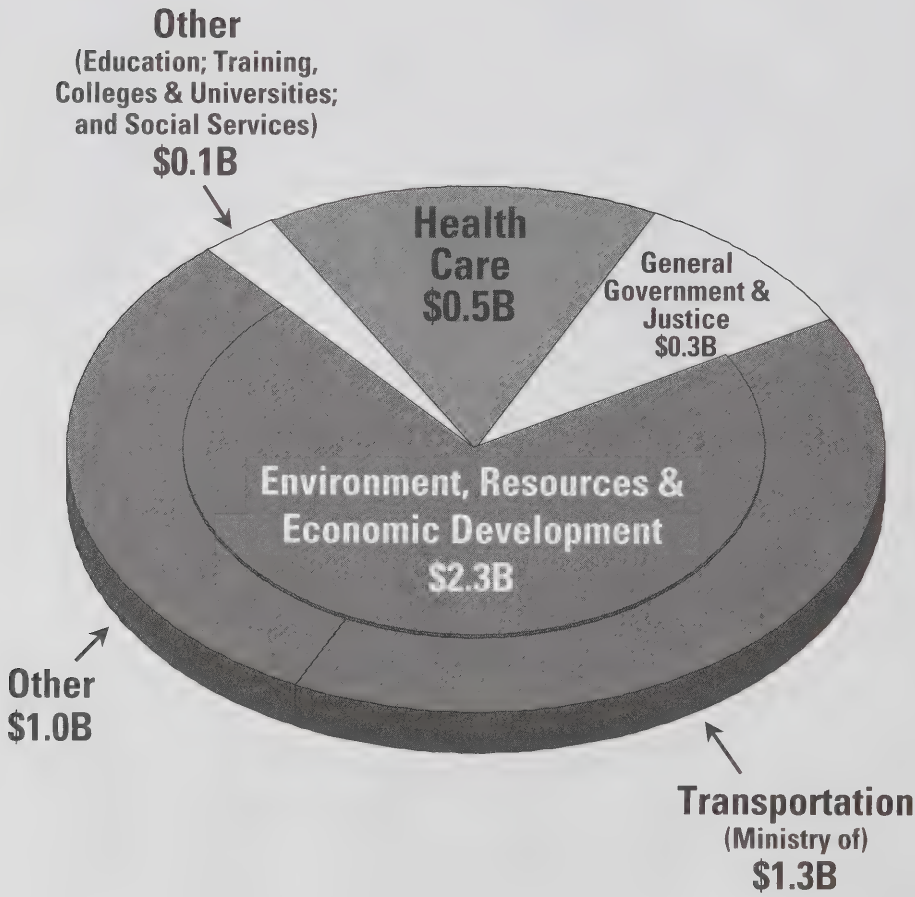
* Includes Major One-Time Health Care Capital Costs.

2003-04 Operating Expenditure by Category

($ Billions)



2003-04 Gross Capital Expenditure by Category
($ Billions)



Paper C

Choosing Prosperity, Competitiveness and Job Creation

Choosing Prosperity, Competitiveness and Job Creation

Ontario's comprehensive reductions in taxes have put the province's economy back on track. Consumers, workers, entrepreneurs and investors have responded in force to the opportunities provided by lower taxes.

The government's tax cuts would allow individual and business taxpayers in Ontario to retain $16 billion more of their money in 2003-04. Taxpayers have invested or used this money to meet their individual needs, creating jobs and healthy economic growth. This, in turn, has fuelled strong revenue growth for all levels of government.

Ontario has gone from being one of the worst-performing jurisdictions in the industrialized world to one of the best. In the last several years, real gross domestic product (GDP) per person—the key to a rising standard of living—has grown faster in Ontario than in the rest of Canada, the United States or the average of the industrialized countries.

As far as we have come, there is still much more to accomplish. The legacy of the tax-and-spend policies of the late 1980s and early 1990s continues to this day: Ontarians' standard of living remains below that of the United States. The Government of Ontario believes that with the right policies, the people of this province can have a higher standard of living than our U.S. neighbours.

More Capital Investment Is Vital

More capital investment is vital for creating more highly paid jobs and a rising standard of living for all Ontarians. Investment in machinery and equipment (M&E) is particularly important because most technological advances are embodied in new equipment.

In almost all manufacturing industry comparisons, the investment in capital is much higher in the United States than in Ontario. On average, manufacturing industries in the United States have 1.5 times as much M&E per worker as their Ontario counterparts have. Employees in these industries are more productive and their employers can afford to pay them higher salaries.

One consequence of lagging productivity and higher taxes in Canada has been a lower value for the Canadian dollar. Canadians have effectively had to "mark down" their wages to remain competitive. This makes imports more expensive for Canadian consumers, resulting in a lower standard of living.

Strong investment and strong job creation go hand in hand. Creating and keeping good jobs that fully use the skills of Ontario's labour force requires continuing and growing capital investment. A competitive tax environment is one of the key factors that will attract the scale and quality of business investment that Ontario requires.

Lower Business Tax Rates Boost Investment

Many factors affect investment location decisions, including the quality of the labour force, infrastructure and environment. However, tax rates remain among the most important factors. Economic studies show that tax rates have a substantial impact on where investment takes place. For example, a study of investment by foreign corporations in U.S. states found that state corporate tax rate differences of one per cent are associated with investment share differences of 9 to 11 per cent (James Hines, *American Economic Review*, 1996, no. 5).

Countries around the world are increasingly recognizing that it is vital to have competitive corporate income tax (CIT) rates in order to attract new investment. In 2000, 10 countries cut the CIT rate and no country increased it. In 2001, 12 countries cut the CIT rate and no country increased it. The average rate in the Organisation for Economic Co-operation and Development at the beginning of 2002 was 31.4 per cent, down from 35.3 per cent in 2000. Based on recent trends, by 2006 the international average is likely to be considerably lower than 31.4 per cent.

Another study, examining the investments of 500 major U.S. corporations in 60 countries, found that a lower tax rate that increases the after-tax return to capital by one per cent is associated with about three per cent more real capital invested (Grubert and Mutti, *National Tax Journal*, December 2000).

Lower Business Tax Rates Lead to Benefits for Workers

The Scandinavian countries all have corporate income tax rates that are well below Ontario's level. These countries all have a high overall tax burden. However, they have chosen to reduce their corporate tax rates because they know that workers are the main beneficiaries of lower corporate taxes.

> "Economic policy should not be based on tax increases. ...A high tax level is associated with social costs such as a reduction in the labour force. In an ever-more integrated world, the possibilities for maintaining a tax level that deviates also from other countries are substantially limited."
>
> *Norway Ministry of Finance*
> *Report no. 29 to the Storting (2000-2001),*
> *Guidelines for economic policy*

It is an almost unanimous finding among economists that lower corporate income tax rates are ultimately a benefit to workers, rather than the owners of capital. Capital investment is highly mobile internationally, and investors expect to earn the same after-tax rate of return in Ontario as in any other jurisdiction.

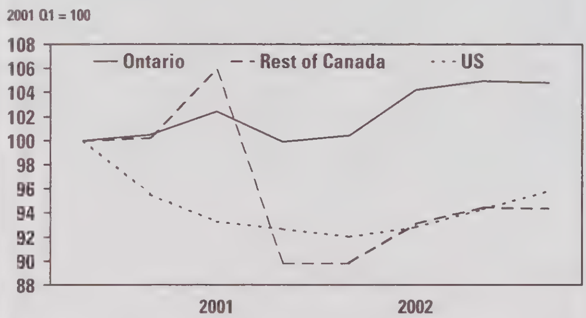
If the CIT rate is higher in Ontario, it must be offset by a higher pre-tax rate of return. This means that only the most profitable of the investment opportunities in Ontario get implemented. Fewer investment projects and fewer new plants mean less demand for workers, and therefore lower real wages for Ontario's workers. Corporate income tax cuts do not primarily benefit higher-income people.

Capital Investment in Ontario Is Improving in Response to Tax Cuts

There is already evidence that Ontario's tax cuts are making a difference to investment. Capital investment is cyclical, and usually falls back sharply during economic slowdowns. During every previous economic downturn in the United States, investment in Ontario fell back much more sharply than in the United States.

Remarkably, in the past two years, machinery and equipment investment in Ontario has remained quite strong. This is in sharp contrast to major reductions in spending in the United States and the rest of Canada. The recent peak of machinery and equipment investment as a share of Ontario's GDP is at an all-time record in the available data, which go back to 1961.

Ontario Leads in Growth of M&E Investment



Sources: Ontario Ministry of Finance, Statistics Canada and Bureau of Economic Analysis.

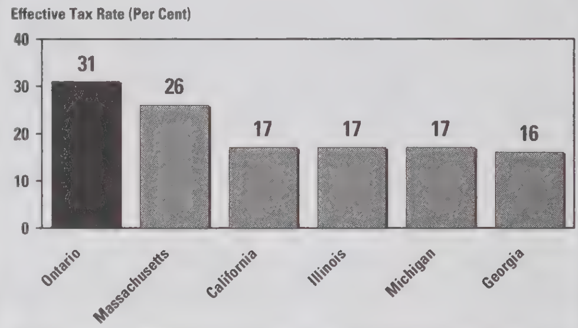
The Ontario Government has taken significant steps to encourage more capital investment. The improvements in the economic environment, including balanced budgets, better regulation and lower personal income tax rates, are all favourable to increased investment. Lower corporate income tax rates are another key factor in creating a more dynamic economy.

Business Tax Cuts Must Continue

Ontario's business taxes need to be structured in a way that improves competitiveness to attract the investment essential to economic growth and job creation. That economic growth and job creation in turn will produce more revenue for public services.

Because competition for investment capital is on a global level, Ontario cannot allow its many inherent competitive advantages to be eroded by uncompetitive business taxes.

Average Marginal Effective Tax Rate on Capital



Source: Closing the Prosperity Gap, Task Force on Competitiveness, Productivity & Economic Progress, First Annual Report, November 2002.

Although the United States has a higher average statutory corporate income tax rate than Ontario, there are other features of its corporate tax system that lower the effective tax rate on capital investment.

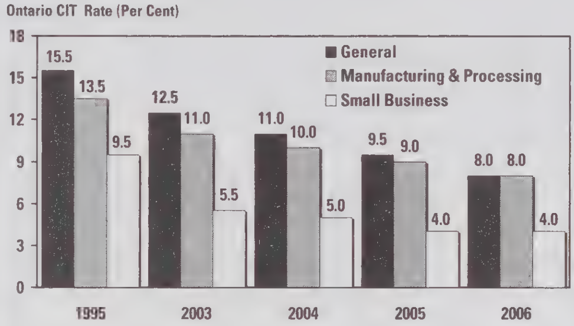
A recent study by the Task Force on Competitiveness, Productivity and Economic Progress found that the effective tax rates in the United States are lower than in Ontario. Other aspects of the tax system in the United States, such as the absence of capital tax, more generous tax depreciation allowances and inventory cost deductions lower its effective tax rates.

The United States can remain competitive for corporate investment, even with a slightly higher tax rate, because it has the world's largest market and it is the home base for so many major multinational corporations.

For Ontario to attract investment, it is especially vital to maintain competitive tax rates. Increased concerns about security over the past few years, and the resulting heightened border tensions, have made companies more hesitant about investing outside the United States. Ontario must show itself to be strongly competitive in all dimensions to overcome this hurdle.

ONTARIO'S STRATEGY TO MEET THE CHALLENGE

Ontario's Multi-Year Corporate Income Tax Rate Cut Plan



Source: Ontario Ministry of Finance.

In the 2000 Budget, the Ontario Government introduced measures directed specifically at encouraging capital investment by corporations. A multi-year program of corporate income tax reductions was announced, along with a cut in the capital gains inclusion rate for both individuals and businesses. The Province outlined a corporate tax cut plan with a view to achieving a clear Ontario tax rate advantage over competing jurisdictions. This plan called for corporate income tax rate cuts across the board—for general corporations, manufacturers and small business.

> "...companies have been using the planned Ontario corporate tax reductions to promote the province for new investment. Once they are fully implemented, they will provide a clear measure of advantage over competing jurisdictions such as Texas and Louisiana."
>
> *Canadian Chemical Producers' Association*

The plan that is already legislated will cut corporate income tax rates significantly—to four per cent for small businesses by 2005 and to eight per cent for all other businesses by 2006. Ontario's plan to move to a single corporate tax rate of eight per cent across all sectors will provide a tax system that is more efficient and fair, with less distortion of business investment decisions and more encouragement to expand. But lower corporate income tax rates are only one way to ensure a globally competitive business environment that promotes new investment.

Elimination of Capital Tax

The capital tax also has a significant impact on Ontario's competitiveness and ability to attract new investments.

> "The capital tax has also discouraged many important investments in small business enterprises throughout the province. ...eliminate the capital tax so that the hospitality industry can attract the required capital to remain competitive. Such a decision will not only result in increased prosperity and job creation but it will also raise the profile of Ontario among the international business community as a destination to invest and do business."
>
> *Ontario Restaurant Hotel & Motel Association*

The capital tax is a direct tax, paid year after year, on the money that companies have invested in their capital. It is a tax that must be paid regardless of whether the company makes any profit. It affects not only large businesses, but also growing small and medium-sized businesses with taxable capital as low as $5 million.

The capital tax discourages investment, when it is clear that we should strive to encourage more capital investment. Most of our competitors do not have a significant capital tax, so it has put Ontario at a particular competitive disadvantage.

The Canadian Automotive Partnership Council, which includes representatives from both the federal and provincial governments as well as the auto industry and labour, has issued a set of recommendations for strengthening Canada's auto sector. It described the capital tax as a "key impediment" to investment, and urged its abolition by both governments.

> "Capital taxes are job killers because they are insensitive to the profitability of an enterprise."
>
> *Windsor & District Chamber of Commerce*

In periods of economic slowdown when businesses are losing money and have to search for ways to cut costs, the capital tax forces them to cut in other areas where they have some flexibility, which is chiefly wages. Therefore, the capital tax leads to greater job losses in economic downturns.

> "The capital tax not only is a direct disincentive to the ownership of capital in the province of Ontario, but it also puts Ontario investors at a complete disadvantage to their U.S. competitors."
>
> *Canadian Manufacturers & Exporters*

As a result, Ontario will propose measures to eliminate the capital tax. Eliminating the capital tax would make Ontario a better place to do business. In the future, when investors here and around the world look for a place to invest capital, Ontario would stand out as one of the best business locations in the world. A greater inflow of capital

investment to Ontario will support innovation, productivity and economic growth. If the impediment of capital tax were to be removed, more Ontario workers would be employed in productive, high value-added jobs.

A Tax System That Supports and Encourages People at Every Income Level

Ontario's attractiveness as a place to work and invest is also influenced by the way in which individuals are taxed, particularly those mobile managers, scientists, professionals and entrepreneurs who could choose any jurisdiction in which to work or locate their business.

Ontario's personal income tax cuts to date are providing $12 billion in benefits to all individual taxpayers this year. Further cuts to the first and second tax rates, already legislated for January 1, 2004, will add another $700 million in benefits. The greatest percentage savings have been concentrated on taxpayers with low and moderate incomes. Ontario now has the lowest tax rates in Canada for most taxpayers reporting incomes of less than about $60,000 and is broadly competitive with our U.S. neighbours at similar income levels.

This government's commitment to eliminate the personal income tax surtax is an important step in the process of choosing competitiveness and prosperity. The surtax is an extra tax that applies even to people with moderate income. The actions proposed in this Budget, together with the personal income tax cuts scheduled for January 1, 2004, would eliminate the surtax for 40 per cent of the people who currently pay it.

Details of Revenue Measures

The following sections provide information on the taxation measures proposed in the budget. Consistent with normal budgetary procedures, in order for these measures to take effect, the relevant legislation, where required, must be introduced and approved by the Legislature.

For a precise description of these measures, the reader is advised to consult the amending legislation, when approved by the Legislature.

Ontario Home Property Tax Relief for Seniors

Ontario Home Property Tax Relief for Seniors

To help seniors stay in their homes, the Government of Ontario will propose home property tax relief for seniors.

Seniors who own or rent their homes would be eligible for a credit that reimburses their full residential education property tax, starting in respect of their property tax after July 1, 2003.

The credit program would require seniors to complete an application. Once their application has been processed, seniors would be reimbursed for the full amount of their residential education property tax, beginning in 2004.

This new credit would not affect Ontario's continuing significant investments in public education.

Income Tax Act

Ontario Property Tax and Sales Tax Credits

The Ontario Tax Credits for Seniors program would be adjusted to reflect the new Ontario Home Property Tax Relief for Seniors to ensure that already credited amounts are not double counted.

Ontario Tax Reduction Program

The Ontario Tax Reduction program reduces or eliminates Ontario personal income tax otherwise payable by taxpayers with low to moderate incomes. This budget proposes to increase the basic amount from $181 to $197, plus an increase for inflation, effective January 1, 2004.

With this proposed change, about 45,000 taxpayers would be removed from Ontario's income tax roll and 630,000 would pay less Ontario personal income tax. This would bring to 825,000 the number of people who would not pay Ontario income tax but will continue to pay income tax to the federal government.

Surtax

The government has committed to eliminate Ontario's personal income tax surtax, which is an extra tax that applies even to people with moderate incomes. This Budget proposes a further step towards this goal by increasing the threshold above which Ontario surtax becomes payable.

Next year, Ontario's remaining surtax will become payable when Ontario income tax exceeds $4,727 plus an increase for inflation. This budget proposes to increase that threshold to $5,240, effective January 1, 2005.

With this proposal, the surtax would not apply to individuals with taxable income of less than $75,000. The surtax would be eliminated for 70,000 taxpayers and reduced for all other surtax payers.

Improved Tax Support for People with Disabilities and for Family Caregivers

Many individuals with disabilities and their caregivers must cope with more costs than does the general population. Ontario's tax system already recognizes their reduced ability to pay taxes through several non-refundable tax credits for people with disabilities and individuals caring for disabled or infirm family members. Three enhancements are proposed to these credits, effective January 1, 2003.

First, this budget proposes to increase the underlying amounts for the disability credit, the caregiver credit, the infirm dependant credit and the disability credit supplement for children with severe disabilities to $6,637.

Non-refundable Credit	Current 2003 Amount	Proposed 2003 Amount
Disability credit	$6,316	$6,637
Caregiver credit	$3,684	$6,637
Infirm dependant credit	$3,684	$6,637
Disability credit supplement for children with severe disabilities	$3,684	$6,637

Second, this budget proposes to expand the caregiver credit and the infirm dependant credit to include spouses or common-law partners who are dependent by reason of a mental or physical infirmity, and to provide support to more caregivers living apart from dependent relatives.

Third, this budget proposes that both the caregiver credit and the infirm dependant credit be reduced when the dependant's net income reaches $13,050 and eliminated at an income level of $19,687. Currently, the caregiver credit is eliminated when a dependant's income reaches $16,290, and the infirm dependant credit is reduced to zero for dependants with incomes of $8,922 or more.

Taken together, these improvements would provide an estimated $50 million in benefits to about 165,000 Ontario taxpayers.

Ontario also plans to work with the federal government and representatives of the disability and caregiving communities to simplify and further enrich support.

Equity in Education Tax Credit

In the 2001 Budget, the government announced its intention to support families who are seeking more choice with respect to their children's education through a tax credit for parents who send their children to independent schools. In order to enhance the government's support for parental choice in education, the government proposes to accelerate the implementation schedule.

This change would restore the implementation schedule proposed in the 2001 Budget:

Taxation Year	Tax Credit Rate
2003	20%
2004	30%
2005	40%
2006 and subsequent taxation years	50%

Ontario Child Care Supplement for Working Families

In the 1998 Budget, the government introduced the Ontario Child Care Supplement for Working Families as a reinvestment under the National Child Benefit initiative. Additional funds will be made available in July 2003 as a result of the enrichment of the federal National Child Benefit Supplement in the 2003 federal budget.

The Ontario Government proposes to increase the threshold at which benefits from the Ontario Child Care Supplement for Working Families begin to be reduced, from $20,000 to $20,750. Benefits from the Ontario Child Care Supplement for Working Families would continue to be reduced by eight per cent of family net income in excess of the $20,750 threshold.

The higher net-income threshold would be implemented beginning with the July 2003 payment, or adjustments would be made retroactively depending on the enactment by the legislature of the necessary changes to the legislation.

Benefits for the period from July 2003 to June 2004 would be calculated on the basis of amounts reported on families' 2002 income tax returns and Canada Child Tax Benefit information.

Corporations Tax Act

Capital Tax

In order to encourage investment, economic growth and job creation, the Government of Ontario proposes to eliminate the capital tax.

In 2001, as a first step to capital tax elimination, the first $5 million of taxable capital for all corporations was exempted from capital tax. The Ontario Government proposes to eliminate the capital tax for all corporations at the same time that the federal government eliminates its capital tax. This budget announces the next step in eliminating capital tax. Capital tax rates for all corporations would be reduced by 10 per cent effective January 1, 2004.

Corporate Income Tax Incentive for Self-Generated Electricity

Corporations that generate electricity for their own use relieve demand on Ontario's supply of electricity. These corporations are currently eligible for the fast write-off for assets used to generate electricity from alternative or renewable energy sources.

To further encourage electricity self-sufficiency, this budget proposes to provide an additional 100 per cent income tax deduction to Ontario corporations for the cost of qualifying assets used to generate electricity for their own use from alternative or renewable energy sources.

It is proposed that:

- the tax deduction would apply to electrical generating facilities where construction commences after November 25, 2002 and is completed before January 1, 2008; and
- corporations eligible for this incentive would not be eligible for the 10-year income tax holiday for new electricity generation.

Apprenticeship Tax Credit

The Ontario Government is proposing to introduce an Apprenticeship Tax Credit to encourage Ontario businesses to hire apprentices, which would help to increase the availability of skilled workers across key sectors of the economy such as manufacturing and construction.

Tax Incentive

Corporations and unincorporated businesses in Ontario would be eligible for a 10 per cent refundable tax credit for eligible expenditures in respect of apprentices in a qualifying skilled trade. The tax credit would be increased to 15 per cent for businesses with total payroll costs of not more than $400,000. An employer would be eligible for a tax credit of up to $250 per month per apprentice to a maximum of $6,000 over a 24-month employment period.

Eligible Expenditures

Eligible expenditures would be salaries and wages paid after March 27, 2003 to an apprentice in a qualifying skilled trade.

Qualifying skilled trades would include designated construction and industrial trades as well as the leading-edge technology trades eligible under the present apprenticeship component of the Co-operative Education Tax Credit.

Apprenticeship Tax Credit

Skilled trades qualifying for the Apprenticeship Tax Credit would include, but not be limited to, the following:

Industrial Trades

- General machinist
- Tool and die maker
- Machine tool design
- Industrial electrician
- Mould designer
- Mould maker
- Industrial mechanic (millwright)
- Industrial instrument mechanic
- Industrial electrical technician
- Precision metal fabricator

Construction Trades

- Plumber
- Sheet metal worker
- Electrician
- Refrigeration and air conditioning mechanic
- Brick and stone mason
- General carpenter
- Ironworker

Services Trades

- Electronic service technician
- Micro-electronics manufacturer
- Network cabling specialist
- Information technology support analyst

Motive Power Trades

- Fuel and electrical systems technician
- Motive power machinist

Interaction with the Leading-Edge Technology Component of the Co-operative Education Tax Credit

The Co-operative Education Tax Credit would continue to be available to businesses hiring co-op students and post-secondary students enrolled in leading-edge technology programs other than apprenticeship programs.

Rules would be introduced to provide a transition to the proposed new tax credit for existing apprenticeships under the Co-operative Education Tax Credit.

Ontario Film and Television Tax Credit

The Ontario Film and Television Tax Credit (OFTTC) is a 20 per cent refundable tax credit available to Ontario-based, Canadian-controlled production companies producing eligible productions in Ontario.

To maintain Ontario's competitive advantage in the film and television production industry and to promote job creation in this important sector of the Ontario economy, the Ontario Government is proposing to enhance the OFTTC.

Effective for productions commencing principal photography after March 27, 2003, eligible Ontario labour expenditures would not be reduced by equity investments from government agencies.

Technical Amendments

Ontario Book Publishing Tax Credit

The Ontario Book Publishing Tax Credit is a 30 per cent refundable tax credit available to eligible Ontario book publishing companies for qualifying expenditures on eligible literary works by first-time Canadian authors.

Where a corporate reorganization occurs, the successor corporation may not be eligible for the tax credit, though it is continuing the publishing business of the predecessor corporation. To improve fairness, this budget proposes to deem the books published and the qualifying expenditures incurred by the predecessor corporation to be those of the successor corporation. This measure would be effective for corporate reorganizations after December 31, 2001.

Ontario Business-Research Institute Tax Credit

The Ontario Business-Research Institute Tax Credit is a 20 per cent refundable tax credit on qualified research and development (R&D) expenditures incurred by an Eligible Research Institute (ERI) under a research contract funded by the corporation claiming the credit.

To further the tax credit's objectives of strengthening Ontario's R&D competitiveness and forging stronger links between the private sector and non-profit research institutes in Ontario, the following changes are proposed:

- Where an ERI and a corporation are connected at any time during a contract, only the R&D expenditures that relate to the period they are connected would not qualify for the tax credit. Also, the requirement that the corporation and the ERI cannot be connected at any time during the 24 months preceding the contract would be eliminated. These changes would be effective for expenditures incurred after May 6, 1997.
- Effective for subcontracts entered into after March 27, 2003, an ERI would be permitted to subcontract R&D work to any person provided that the work is under the general control of the ERI and represents no more than 10 per cent of the total R&D expenditures incurred under the research contract between the ERI and the corporation.

Electricity Act, 1998

Transfer Tax

Municipalities and municipal electricity utilities that transfer an interest in electricity assets to another person are subject to a 33 per cent transfer tax on the value of those assets.

Prior to the restructuring of the electricity industry, there were over 300 municipally owned electricity utilities in Ontario. A two-year transfer tax exemption that applied from 1998 to 2000 reduced this number significantly. But, still over 90 municipally owned utilities remain. To encourage further rationalization and greater efficiencies within the publicly owned electricity distribution sector, a regulation will be made to re-introduce a two-year transfer tax exemption.

The transfer tax exemption would be available for transfers of electricity assets from a municipality or a municipally owned electricity utility to another municipality or publicly owned electricity utility. This exemption would apply to transfers occurring after March 27, 2003 and before March 28, 2005.

Retail Sales Tax Act

Rebate for Wind, Micro-Hydroelectric and Geothermal Energy Systems for Residential Premises

To encourage the production of clean, renewable energy in Ontario, legislation will be introduced that would expand the five-year retail sales tax rebate for solar energy systems, announced in November 2002, to include wind energy systems, micro-hydroelectric systems and geothermal heating/cooling systems for residential premises. The rebate would be available for purchases made after March 27, 2003 and before November 26, 2007.

Increased Rebate for Alternative Fuel Vehicles

To encourage the purchase of alternative, cleaner vehicles and to support their development, legislation will be introduced to double the retail sales tax rebate for qualifying alternative fuel vehicles delivered to purchasers after March 27, 2003, to a maximum of $2,000. The maximum rebate for propane vehicles will remain at $750.

Expansion of Rebate for Capital Investments by Charities

This measure proposes to modernize the retail sales tax rebate for charities constructing new facilities. Religious, charitable or benevolent organizations may currently apply for a rebate of the retail sales tax that they pay for materials incorporated into buildings that they own or lease under a long-term lease. The rebate relieves these organizations from the tax that they would otherwise be required to pay on building materials incorporated into their capital investments.

Regulation amendments would be made to expand the eligibility for this rebate to qualifying religious, charitable or benevolent organizations that enter into an agreement to construct a facility that they will lease on a long-term basis immediately upon completion.

To qualify:

- the building must be transferred to the charity immediately following substantial completion;
- the building must be leased to the charity for at least 20 years; and
- the charity must have the right to acquire the building for nil or nominal consideration at the end of the lease.

This proposal would update the rebate program to reflect modern financing arrangements. All other eligibility rules for the rebate would remain unchanged:

- A religious, charitable or benevolent organization means an organization defined as a "registered charity" for federal income tax purposes with a charitable registration number issued by Canada Customs and Revenue Agency.
- As with the existing rebate, the charity would be required to provide an undertaking that all of the rebate will be used solely for the charitable purposes of the organization.

The new rules would apply to contracts entered into after March 27, 2003. As a transitional rule, partial rebates would be available for contracts entered into on or before March 27, 2003, based on the portion of the contract price paid after March 27, 2003.

Restructure Retail Sales Tax as Applied to Domestic Carriers

Following suggestions from the trucking industry, the Ontario Government will consult with the industry on the merits of extending the modified retail sales tax system for multi-jurisdictional vehicles to all heavy commercial vehicles.

Community Small Business Investment Funds Act

Access to capital for small- and medium-sized businesses would be improved as the result of proposed enhancements to the Labour Sponsored Investment Funds (LSIF) and Community Small Business Investment Funds (CSBIF) programs.

The LSIF program is a significant source of venture capital for small and medium-sized businesses, having invested $350 million in Ontario businesses last year. LSIFs represented the

single-largest investor in early-stage businesses in Ontario in 2002.

- There are many small public companies that are unable to access venture capital in today's market environment. For these companies to succeed, they require additional sources of financing. LSIFs, which are a significant source of capital for small companies, are limited in the size of business they can invest in, and in the amount of investment they can make in public companies. In order to improve access to capital for these businesses, the following changes are proposed:
  - The restriction on LSIF investments in companies listed on a stock exchange would be relaxed so that an LSIF could invest up to 25 per cent of its investments in a year in listed companies instead of the current limit of 15 per cent.
  - The definition of a small business would be amended to increase the maximum asset size of an eligible small business to $6 million.
  - Currently, LSIFs are limited to a maximum investment size of $15 million in companies of up to $50 million in assets. The government believes that LSIFs should be able to make larger deals in larger companies. Because the federal government's LSIF program contains identical definitions overlapping Ontario's program, Ontario will approach the federal government to pursue joint action for increasing these limits to allow investments of up to $18 million in businesses with up to $60 million in assets.

In 1997, Ontario introduced the CSBIF program to promote greater access to investment capital for growing businesses with $1 million or less in assets. This program has become an important source of capital for universities and hospitals that are commercializing research. There are now 13 CSBIFs with approximately $50 million of capital.

- In 2003, the following changes are proposed to the CSBIF program to facilitate the establishment of additional CSBIFs:
  - The current deadline for the registration of a CSBIF would be extended from December 31, 2003 to December 31, 2004.
  - The investment incentive available to individuals and corporations would be increased from a maximum of 15 per cent to a maximum of 30 per cent. The investment incentive available would be 15 per cent, at the time of an investment in a CSBIF, and 15 per cent when the CSBIF invests in small businesses. The maximum incentive an individual or corporation would be able to claim is $150,000.
  - The requirement for a CSBIF to obtain investment from a financial institution or LSIF prior to registration would be removed.

- To ensure that taxpayers obtain the maximum investment in small businesses possible in return for the LSIF tax credit, the following change is proposed for the CSBIF program:
  - An LSIF that makes an investment in a CSBIF would be able to count that investment against its own investment pacing requirements once—at the time the LSIF invests in the CSBIF.

Credit Unions and Caisses Populaires Act

The Ontario Government proposes to give credit union members more choice in determining the best way for their credit union to provide services. Credit unions that want to provide services to their members on a national basis would have the ability to transfer from the Ontario jurisdiction to the federal jurisdiction. Similarly, credit unions from other provinces and federal financial institutions would have the ability to transfer to the Ontario jurisdiction. This would contribute to Ontario's deposit-taking institutions' flexibility to adapt to changing competitive circumstances, and thereby support the ability of Ontarians in communities of all sizes to have effective access to high-quality banking and financial services.

Land Transfer Tax Act

Exempting Life Leases from Land Transfer Tax

Life leases are a form of housing for seniors, whereby the owner of a life lease has the exclusive right to occupy a residential dwelling for life. This government recognizes the unique nature of life leases. It is proposed that certain life leases be exempt from land transfer tax. Life lease transactions that would qualify for the exemption are those pursuant to agreements between a registered charity under the federal *Income Tax Act*, or a non-profit organization as specified in the regulation, and the purchaser of the life lease. The proposed exemption would be implemented by regulation and would be retroactive to the application of land transfer tax to unregistered dispositions of land.

Transfers of Farmland between Family Members

Farming and farm-related businesses make an important contribution to Ontario's economy. Currently, transfers of farmland into a family farm corporation are exempt from land transfer tax. To provide relief for all farmers, it is proposed that amendments to the Regulation would be made to expand the exemption to include transfers of farmland between family members. The proposed measure would apply to qualifying transfers after March 27, 2003.

PROPERTY TAX

Property Assessment and Classification Review

In 2002, a review of property assessment and classification issues was conducted by Marcel Beaubien, MPP, Lambton-Kent-Middlesex, Parliamentary Assistant to the Minister of Finance. A report containing a broad range of recommendations on the issues raised by stakeholders during the review was released by Mr. Beaubien in November 2002. The public was invited to provide feedback to the Minister of Finance on the recommendations in this report as it is the government's intention to consider stakeholder feedback before making decisions about the implementation of these recommendations.

As a result of the positive feedback received to date, the government is moving forward with the following measures to streamline administration and enhance the fairness and flexibility of the property tax system.

Managed Forests Property Class:

- To provide municipalities with more flexibility to respond to local priorities, the government proposes to amend the *Municipal Act, 2001* to enable upper-tier and single-tier municipalities to reduce the municipal portion of the tax rate on the managed forests property class below 25 per cent of the residential tax rate. Municipalities would be given this option beginning in the 2003 taxation year. This measure would mirror the option provided for the farm property class in the 2002 Budget.
- To help promote greater land stewardship planning and to recognize the diversity of the forest landscape, the eligibility criteria for the managed forests property class would be expanded to allow natural areas that cannot support tree growth, such as marshes or rock facings, to be included in the managed forests property class along with eligible forested areas. This measure would be implemented by regulation and would take effect for the 2004 taxation year.
- To reduce red tape and to streamline the administration of the managed forests property class, the following administrative improvements are proposed to be implemented by regulation:
    - Change the application deadline from August 31 to July 31 to allow sufficient time for applications to be processed prior to the preparation of the assessment roll, commencing with the assessment roll for the 2004 taxation year.
    - Change the application requirement from annual to every 10 years to reduce property owners' costs of obtaining managed forest plans. Appropriate monitoring measures would be in place to ensure ongoing compliance with eligibility criteria between application periods.

- Change the application filing requirements to remove the obligation for property owners to submit an entire managed forest plan and only require relevant portions of plans to be submitted.
- Allow applications to be accepted up to December 31 of the taxation year in situations where there are mitigating circumstances, such as changes of ownership, commencing with the 2003 taxation year.

Farm Property Class:

- Consistent with the change proposed for the managed forests property class, the government intends to authorize the acceptance of applications for inclusion in the farm property class up to December 31 of the taxation year, commencing with the 2003 taxation year, to provide the flexibility to address situations where there are mitigating circumstances (such as a change of ownership). This measure would be implemented by regulation.

Rooming Houses:

- To clarify the regulation defining property classes (Ontario Regulation 282/98), the Province proposes to amend the regulation to specify that licensed rooming houses shall be included in the residential property class, not in the multi-residential property class, beginning in 2003. This amendment would alleviate the uncertainty that currently exists for taxpayers who are occupying this low-cost form of housing.

The government is continuing to receive input from stakeholders in response to the remaining recommendations in Mr. Beaubien's report. Analysis of these recommendations is ongoing and will be taken into consideration in the context of the 2004 reassessment.

Assessment Quality Measures

Under the *Municipal Property Assessment Corporation Act, 1997*, the Minister of Finance has the authority to establish "policies, procedures and standards" for the provision of assessment services by the Municipal Property Assessment Corporation (MPAC).

As province-wide reassessments will now be conducted annually, the government intends to open a dialogue with taxpayers, municipalities and MPAC to identify policies, procedures and standards that could be implemented to enhance the quality of assessment service delivery, improve customer satisfaction and bring further clarity to MPAC's roles and responsibilities.

As an immediate measure, an amendment will be proposed to the *Assessment Act* to enable the Minister of Finance to prescribe additional information that must be included on the assessment roll beyond the current requirements. This authority would facilitate improvements to the nature and clarity of assessment information that is made available to municipalities and taxpayers.

Assessment Averaging Review

In 1998, the Province introduced current value assessment (CVA) to bring fairness and accountability to the property tax system in Ontario. As part of the original property tax reform plan, the government introduced legislation to enact an assessment averaging mechanism that would take effect in 2005. Subsequent to the enactment of the assessment averaging legislation, the Province implemented mandatory limits on annual property tax increases and provided municipalities with a variety of tax mitigation tools to ensure that the transition to the new current value assessment system would be manageable for taxpayers.

As five years have now passed since CVA and tax mitigation tools were introduced, and as assessment averaging is scheduled to be implemented in less than two years, the government believes this is an appropriate time to evaluate whether there is a need for assessment averaging in the context of the existing mechanisms.

Accordingly, Marcel Beaubien, MPP, Lambton-Kent-Middlesex, Parliamentary Assistant to the Minister of Finance, has been appointed to conduct a review, lead public consultations and provide advice to the Minister of Finance on the implementation of assessment averaging in Ontario. This review will consider the effectiveness of the existing property tax mitigation tools and the degree to which assessment averaging would enhance taxpayer protection.

Pending the outcome of Mr. Beaubien's review, the government proposes to defer the introduction of assessment averaging beyond 2005. An amendment to the *Assessment Act* will be proposed to replace the 2005 implementation date with a date to be determined by the Minister of Finance. A notice period of 18 months will be proposed to allow municipalities and the Municipal Property Assessment Corporation sufficient time to implement the operational and systems changes that would be required to support this measure.

The government remains committed to providing taxpayers with a manageable transition to CVA and to maintaining a property tax system that is fair, transparent and accountable.

Beer and Wine

Microbreweries

Small brewers promote tourism and community and rural development. To encourage the growth and development of Ontario's microbrewery sector, the fees levied by the Alcohol and Gaming Commission of Ontario will be adjusted effective May 26, 2003.

A microbrewery would be defined, on or after May 26, 2003, as a manufacturer of beer whose annual worldwide production over the last five years averages 150,000 hectolitres or less.

The microbrewery reduction rates and thresholds are proposed to change according to the following schedule:

- 5.11 cents per litre for regular beer and 3.61 cents per litre for draught on the first 15,000 hectolitres of beer shipped in Ontario on or after May 26, 2003;
- 12.76 cents per litre for regular beer and 9.01 cents per litre for draught on the next 15,000 hectolitres of beer shipped in Ontario on or after May 26, 2003;
- 25.53 cents per litre for regular beer and 18.03 cents per litre for draught on the next 20,000 hectolitres of beer shipped in Ontario on or after May 26, 2003;
- 38.29 cents per litre for regular beer and 27.04 cents per litre for draught on the next 25,000 hectolitres of beer shipped in Ontario on or after May 26, 2003;
- 45.95 cents per litre for regular beer and 32.45 cents per litre for draught on the next 75,000 hectolitres, up to 150,000 hectolitres of beer shipped in Ontario on or after May 26, 2003; and
- 51.05 cents per litre for regular beer and 36.05 cents per litre for draught when over 150,000 hectolitres of beer is shipped in Ontario on or after May 26, 2003.

Regular beer is beer shipped in containers with a capacity of less than 18 litres. Draught beer is beer shipped in containers with a capacity equal to or greater than 18 litres.

Beer Products Sold in the Liquor Control Board of Ontario (LCBO)

To ensure consistent treatment of all beer products sold in the LCBO, the accounting system for revenue from domestic beer products will be amended to mirror that of imported beer products.

Support for Ontario's Wine Strategy

The government currently supports the Ontario Wine Industry's Strategic Plan "The Wines of Ontario—Building a World-Class Brand" through matching funds for marketing, advertising and tourism initiatives. The current program expires December 31, 2004. To assist this vibrant domestic industry, the Province will commit to provide new marketing support of $2 million annually, for a five-year term. These funds will be available on a matching basis after the existing program expires. This partnership with the private sector will help the industry realize the goals of its strategic plan.

ADMINISTRATIVE FAIRNESS AND EFFECTIVENESS

Ensuring Integrity in the Tax System

All of Ontario's major tax statutes require taxpayers to voluntarily file tax returns, accurately report their tax liabilities and pay the taxes they owe. In a system based on voluntary compliance there will always be those who shirk their responsibility by not filing tax returns and not carrying their fair share of the tax burden. The Ministry of Finance is taking aggressive action to ensure that all corporations file tax returns or Exempt from Filing declarations.

By April 30, 2003, notices will be issued to all corporations in default of filing, requiring immediate filing of appropriate documents. Failure to respond to this notice could ultimately result in the corporation's dissolution and prosecution of the directors of the corporation under the *Provincial Offences Act* for failure to file tax returns. In addition, where tax is owing, late filing penalties will be imposed of up to 17 per cent of the tax owing, escalating to 50 per cent for repeat late filers.

To ensure that all tax debts have been paid or secured, amendments to the *Ontario Business Corporations Act* will be proposed to allow for the dissolution of the corporation and the withholding of clearance certificates for revivals, transfers of assets or dissolutions where tax debts are owed to the Ministry of Finance under the *Employer Health Tax Act, Retail Sales Tax Act, Land Transfer Tax Act, Fuel Tax Act, Gasoline Tax Act* and *Tobacco Tax Act.*

Simplifying Tax Administration by Providing Taxpayers with Quality Service and Information

The Government of Ontario is committed to ensuring that all taxpayers have the information they need in order to determine their tax liabilities and to continuing to improve tax-filing processes for taxpayers. While many improvements have been made in these areas over the past few years, the government recognizes the need for further improvement.

The government is announcing the implementation of Service Commitments and Standards for Tax Administration. These seven commitments and 18 standards will be measured and reported on annually. The commitments and standards will hold the government and its employees accountable for the quality of service provided to taxpayers, and help ensure that tax laws are administered with courtesy and fairness.

Changes to the retail sales tax (RST) Purchase Exemption Certificate (PEC) system will be proposed to reduce red tape and compliance costs for vendors and taxpayers when claiming an exemption from RST on purchases. PECs will no longer require a signature or a list of exempt items and will have no expiry date. These changes would be implemented through amendments to the existing Regulation provisions.

To simplify the purchase of eligible farm-related supplies, equipment and building materials, qualifying farmers will be allowed to use a farmer identification card in lieu of a PEC. Farm organizations will be consulted to establish the implementation date and confirm the administrative process. These changes would be implemented through amendments to the Regulations.

The Ministry of Finance will strengthen the communications around the requirement to file Employer Health Tax (EHT) returns and pay tax by sending an annual information package to employers with payrolls between $300,000 and $400,000, advising them of their potential EHT obligations.

To ensure consistency with existing provisions in the *Corporations Tax Act* and *Employer Health Tax Act,* an amendment will be proposed to the *Retail Sales Tax Act* to provide the authority for the Minister of Finance to seek a waiver from taxpayers in instances where the period for taxes owing is about to become statute-barred. This would allow taxpayers time to gather additional information to support their position without the concern that an estimated assessment would be issued.

Technical Measures

Ontario will introduce legislation and regulations to improve policy and administrative effectiveness, maintain the integrity and fairness of the tax system, and simplify legislation and tax compliance.

- *Assessment Act*
- *Business Corporations Act*
- *Corporations Tax Act*
- *Education Act*
- *Electricity Act, 1998*
- *Employer Health Tax Act*
- *Fuel Tax Act*
- *Gasoline Tax Act*
- *Income Tax Act*
- *Land Transfer Tax Act*
- *Municipal Act, 2001*
- *Municipal Property Assessment Corporation Act, 1997*
- *Municipal Tax Assistance Act*
- *Ontario Energy Board Act, 1998*
- *Retail Sales Tax Act*
- *Tobacco Tax Act*

Benefits to Taxpayers: 2003 Budget Impact Summary	2003-04 ($ Millions)	Full Year ($ Millions)
BENEFITS TO PEOPLE		
Ontario Home Property Tax Relief for Seniors	340	450
Ontario Tax Reduction enrichment	5	20
Surtax threshold increase	0	105
Improved income tax support for people with disabilities and for family caregivers	50	50
Equity in Education Tax Credit	60	180
Changes to Community Small Business Investment Fund Programs	3	3
RST Rebate for Wind, Micro-Hydroelectric and Geothermal Energy Systems for Residential Premises	3	3
Increased RST Rebate for Alternative Fuel Vehicles	2	2
Exempting Life Leases from Land Transfer Tax (LTT)	4	1
LTT Exemption for Transfers of Farmland Between Family Members	5	5
Expansion of RST Rebate for Capital Investments by Charities	2	2
Total Benefits to People	**474**	**821**
BENEFITS TO EMPLOYERS		
Capital Tax (Next Step in Elimination)	3	110
Apprenticeship Tax Credit	11	15
Corporate Income Tax Incentive for Self-Generated Electricity	8	10
Ontario Film and Television Tax Credit	4	4
Business Education Property Tax Cut	14	57
Revenue from Microbreweries	5	6
Corporate Income Tax Technical Amendments	2	2
Total Benefits to Employers	**47**	**204**
Total Benefits to Taxpayers	**521**	**1,025**

Paper D

Ontario's Financing Plan

Highlights

- With the 2002-03 surplus of $524 million, the Province has achieved its target to reduce debt by $5 billion from the 1998-99 level.
- Rating agencies have recognized Ontario's fiscal and economic achievements. In July 2002, Ontario's credit rating was upgraded by Moody's Investors Service (Moody's) to Aa2 from Aa3, the first upgrade from Moody's since 1974. In August 2002, both Standard & Poor's (S&P) and Dominion Bond Rating Service (DBRS) confirmed their AA ratings for the Province. Since 1995, Ontario has achieved nine rating improvements, including four upgrades to its long-term rating.
- Through the Ontario Financing Authority (OFA), the Province intends to raise $11.8 billion in long-term public borrowing for 2003-04, primarily to refinance maturing debt. This will include proceeds from the ninth annual Ontario Savings Bond campaign in June.
- The Province's 2002-03 long-term public borrowing program of $15.8 billion was completed in a cost-effective manner. As a strong and stable credit, Ontario is able to take advantage of a variety of borrowing opportunities in the domestic and international fixed income markets.
- The Province completed the Ontario Electricity Financial Corporation's (OEFC) 2002-03 borrowing requirements, including debt maturities of $2.7 billion, and will refinance OEFC's long-term debt maturities of $3.5 billion in 2003-04.
- OEFC sold $2.1 billion of the Hydro One debt that it had held since the restructuring of the electricity sector in 1999. This sale into the public capital markets resulted in a financial gain of over $200 million for OEFC.
- The Province announced on January 28, 2003 that Desjardins Credit Union Inc. was the successful bidder for the Province of Ontario Savings Office (POSO). Desjardins Credit Union Inc. will be the new owner effective April 1, 2003.

2002-03 Borrowing Program

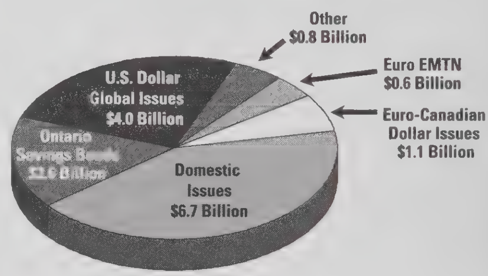
The Province, through the OFA, employed a wide variety of financing approaches to complete its borrowing requirements in 2002-03. Ontario adapted to challenging market conditions by continuing to diversify its funding sources to meet investors' needs. These funding sources included domestic, European and global bonds as well as medium term notes (MTNs). In addition, Ontario residents participated in the annual Ontario Savings Bond campaign.

The Province's bond issues are well received by both retail and institutional investors worldwide. While domestic investors comprise the largest investor base for Ontario, significant foreign investor interest, particularly from the United States, but also Europe and Asia, demonstrates the widespread international demand for Ontario's bonds.

- The Province completed $15.8 billion in long-term public borrowing in 2002-03, compared to the Budget Plan of $12.7 billion. Historically low but rising interest rates made it prudent for the Province to partially pre-fund its 2003-04 financing needs, including $2.2 billion related to the replacement of POSO deposits.
- The domestic market was the main funding source for the Province in 2002-03, providing a total of $6.7 billion, including:
  - 11 syndicated domestic issues; and
  - more than 20 smaller structured issues via the domestic MTN program.
- The 2002 Ontario Savings Bond campaign raised an additional $2.6 billion.
- The Province also issued nine Euro-Canadian dollar bonds via its Euro Medium Term Note (EMTN) program, raising a total of $1.1 billion.
- While more than two-thirds of the borrowing program was raised in Canadian dollars, Ontario was also successful in accessing foreign currency markets. This borrowing achieved funding costs below those available in the Canadian dollar markets. The Province issued seven U.S. dollar global bonds for the Canadian dollar equivalent of $4.0 billion. Additionally, a total of $0.9 billion was raised via a New Zealand dollar global bond, a Euro currency-denominated EMTN and an Australian dollar-denominated EMTN.
- In 2002-03, the Province purchased and retired $517 million of several Ontario debt issues, financing the purchases with similar amounts of debt issued at more favourable rates.

2002-03 Long-Term Public Borrowing

$15.8 Billion in Long-Term Public Borrowing*



* Excludes debt buybacks.
Source: Ontario Financing Authority.

2003-04 Borrowing Program

The Province intends to raise $11.8 billion in long-term public borrowing in 2003-04, primarily to refinance maturing debt.

Financial Summary
($ Billions)

	2002-03 Budget Plan	2002-03 Interim	2003-04 Budget Plan
Surplus	0.0	0.5	0.0
Adjustments for:			
Non-Cash Items Included in Surplus	(2.9)	(4.2)	(1.3)
Amortization of Tangible Capital Assets	0.7	0.8	0.8
Acquisitions of Tangible Capital Assets	(1.4)	(1.3)	(1.5)
Maturities of Debt*	(11.7)	(11.6)	(10.1)
Early Redemptions of Debt	(1.2)	(1.1)	(1.0)
Canada Pension Plan Borrowing	0.7	-	1.2
Decrease/(Increase) in Cash and Cash Equivalents	3.0	(0.2)	3.0
Increase/(Decrease) in Short-Term Borrowing	-	1.3	0.3
Other Sources/(Uses) of Cash**	-	-	(3.2)
Long-Term Public Borrowing Requirement	**12.7**	**15.8**	**11.8**

Note: Numbers may not add due to rounding.

* 2002-03 interim maturities of debt are lower than the 2002-03 Budget Plan due to the Province exercising its options on extendible bonds.

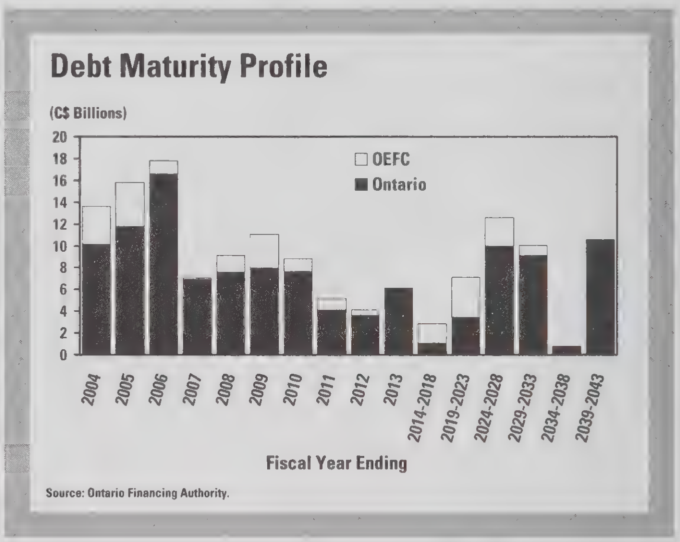
** Includes a $1 billion capital injection to the Ontario Municipal Economic Infrastructure Financing Authority and the replacement of approximately $2.2 billion in deposits with the Province of Ontario Savings Office upon its sale.

- The domestic market will remain the main borrowing source for the Province, including the ninth annual Ontario Savings Bond campaign in June.
- The Province will also continue to take advantage of foreign markets when cost-effective borrowing opportunities arise.

Debt Management Program

The Province manages its debt by adhering to prudent risk management policies to mitigate its exposures to financial risk, such as interest rate, foreign exchange and credit risk, while maintaining the needed flexibility in its borrowing and debt management programs.

- The Province has set a policy of a maximum interest rate reset exposure of 25 per cent of outstanding debt. Interest rate reset exposure is the combination of net floating rate exposure (i.e., gross floating rate exposure less liquid reserves) and all fixed rate debt maturing within the next 12 months. As of February 28, 2003, interest rate reset exposure was 12.1 per cent of outstanding debt, compared to 12.5 per cent as of March 31, 2002.
- The Province has set a policy that limits exposure to unhedged foreign currencies to five per cent of outstanding debt. As of February 28, 2003, the Province's foreign exchange exposure was 1.5 per cent of outstanding debt, unchanged from March 31, 2002.
- Credit risk arises when the Province invests its liquid reserves and when it carries out debt management activities to mitigate risks associated with new borrowing and outstanding debt. To minimize credit risk, the Province has set a policy of undertaking transactions only with the federal and provincial governments and non-government counterparties with high credit quality.
- Liquid reserves are maintained at levels sufficient to ensure the government can meet its short-term financial obligations. Ontario's Treasury Bill and U.S. Commercial Paper programs are also available to meet additional liquidity needs if required.



- The Province and OEFC have debt maturing over the next three fiscal years ranging from $13.6 billion in 2003-04 to $17.8 billion in 2005-06.
- The Province strives for a balanced debt maturity profile to mitigate the interest rate risk inherent in refinancing maturing and floating-rate debt.

Ontario's Credit Ratings

Credit rating agencies have recognized Ontario's fiscal and economic achievements.

In July 2002, Ontario's credit rating was upgraded by Moody's to Aa2 from Aa3, the first upgrade from Moody's since 1974. In August 2002, both S&P and DBRS confirmed their AA ratings for the Province. The upgrade placed Ontario's overall credit ratings second among Canada's provinces, with only Alberta having higher ratings.

Since 1995, Ontario has achieved nine rating improvements, including four upgrades to its long-term rating. These upgrades are based on continued improvements in the Province's financial profile, reflected in:

- consecutive balanced budgets since 1999-2000;
- improved overall competitiveness of Ontario's economy resulting from tax cuts; and
- prudent fiscal policy and continuing improvement in the Province's debt profile.

Ontario's Credit Ratings

	Credit Rating	Outlook
Standard & Poor's	AA	Stable
Moody's Investors Service	Aa2	Stable
Dominion Bond Rating Service	AA	Stable

Source: Ontario Financing Authority.

Ontario Electricity Financial Corporation (OEFC)

OEFC is the agency of the Province responsible for the servicing and management of the former Ontario Hydro's debt, derivative contracts and certain other liabilities.

- OEFC sold $2.1 billion of the Hydro One debt that it had held since the restructuring of the electricity sector in 1999. This sale into the public capital markets resulted in a financial gain of over $200 million for OEFC.
- In 2002-03, the Province completed OEFC's borrowing requirements, including debt maturities of $2.7 billion, through the $2.1 billion raised from the successful sale of the Hydro One notes and the issuance of $0.9 billion in long-term debt.
- OEFC's long-term debt maturities total $3.5 billion in 2003-04. These maturities will be refinanced in the long-term public debt markets.
- On December 9, 2002, the *Electricity Pricing, Conservation and Supply Act, 2002* was passed to freeze the price that families, small businesses and farmers pay for electricity at 4.3¢ per kilowatt-hour (kWh) until 2006. OEFC is responsible for managing the Electricity Consumer Price Protection Fund created under the Act.

Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA) and Ontario Opportunity Bonds

In August 2002, in an address to the annual conference of the Association of Municipalities of Ontario, the Premier announced that OMEIFA would be created to reduce infrastructure financing costs for municipalities to assist them in meeting the challenges presented by expanding economies and growing populations.

The *Ontario Municipal Economic Infrastructure Financing Authority Act, 2002*, which received royal assent on December 9, 2002, provides the framework for the governance and accountability of the new agency.

The Premier also stated that the government would provide a capital injection to OMEIFA of $1 billion to start up the new financing authority and that the Ontario Clean Water Agency would provide $120 million to be dedicated to finance sewage and clean water infrastructure. OMEIFA will issue tax-exempt Ontario Opportunity Bonds to investors to raise additional capital.

Province of Ontario Savings Office (POSO)

POSO provides basic deposit-taking services to the public through its 28 offices in Ontario.

- In the 2001 Budget, the Province of Ontario announced its intent to sell POSO, as it had become clear that these services were better delivered by the private sector, which has more experience in running banks. On September 26, 2002, the government released a Request for Proposals to qualified bidders interested in buying POSO.
- On January 28, 2003, the government announced that Desjardins Credit Union Inc. was the successful bidder for POSO and will be the new owner effective April 1, 2003. Desjardins Credit Union Inc. will pay approximately $50 million for POSO and invest an additional $120 million into expanded services, training and improvements.
- The Province will continue to guarantee payment of all POSO short-term deposits and guaranteed investment certificates that were purchased before April 1, 2003, until their maturity. The Provincial guarantee on demand deposits will remain in place until the transfer of POSO to the new owner. On the date of the transfer, Desjardins Credit Union Inc. will assume responsibility for all POSO deposits.

APER D Appendix: Financial Tables

NET PROVINCIAL DEBT TABLE I (A)
Interim 2003[1] ($ Millions)

	1999	2000	2001	2002	Interim 2003	Plan 2004
Debt Issued for Provincial Purposes[2]						
Non-Public Debt						
Minister of Finance of Canada:						
Canada Pension Plan Investment Fund	$ 10,487	$ 10,369	$ 10,442	$ 10,063	$ 8,768	$ 7,567
Ontario Teachers' Pension Fund	13,213	12,252	11,535	11,043	10,387	9,487
Ontario Municipal Employees Retirement Fund ..	666	622	569	502	266	103
Canada Mortgage and Housing Corporation	1,208	1,181	1,147	1,116	1,078	1,040
Public Service Pension Fund	3,604	3,535	3,446	3,331	3,200	3,052
Ontario Public Service Employees' Union Pension Fund (OPSEU)	1,712	1,679	1,637	1,582	1,520	1,450
Colleges of Applied Arts and Technology Pension Plan	89	86	81	73	43	19
Ryerson Retirement Pension Plan	8	8	7	6	5	4
Ontario Immigrant Investor Corporation					42	41
	$ 30,987	$ 29,732	$ 28,864	$ 27,716	$ 25,309	$ 22,763
Publicly Held Debt						
Debentures and Bonds[3]	$ 72,464	$ 72,549	$ 73,279	$ 76,502	$ 81,553	85,364
Treasury Bills	950	3,002	2,680	2,118	2,971	2,626
U.S. Commercial Paper[3]	272	396	523	809	1,256	1,256
Other	460	458	447	447	438	435
	$ 74,146	76,405	$ 76,929	$ 79,876	$ 86,218	$ 89,681
Total Debt Issued for Provincial Purposes	$ 105,133	$ 106,137	$ 105,793	$ 107,592	$ 111,527	$ 113,645
Debt Issued for Investment in Electricity Sector[4]	$ -	$ 8,885	$ 8,885	$ 8,885	$ 8,885	$ 8,885
Deposits with the Province of Ontario Savings Office[5]	$ 2,517	$ 2,812	$ 2,482	$ 2,438	$ -	$ -
Other Liabilities[6]	19,237	19,403	15,940	12,815	14,289	10,058
Total Liabilities:	$ 126,887	$ 137,237	$ 133,100	$ 131,730	$ 134,701	$ 132,588
Less: Total Assets	$ (12,150)	$ (23,522)	$ (22,466)	$ (21,540)	$ (24,995)	$ (22,882)
Net Provincial Debt[7] - Before Provisional Adjustment for CCRA Error; and Accounting Changes	**$ 114,737**	**$ 113,715**	**$ 110,634**	**$ 110,190[7]**	**$ 109,706**	**$ 109,706**

Source: Ontario Ministry of Finance.

(1) The definition of Net Provincial Debt for 2002-03 and 2003-04 includes the Net Investment in Tangible Capital Assets. For all other years, the definition of Net Provincial Debt represents total Liabilities less Financial Assets.

(2) Includes debt issued by Government Organizations.

(3) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province.

(4) Debt issued for Investment in Electricity Sector comprises notes payable to Ontario Electricity Financial Corporation as a result of a debt for equity swap between the Province and its two wholly owned subsidiaries, Ontario Power Generation Inc. and Hydro One Inc.

(5) On January 28, 2003, the government announced that Desjardins Credit Union Inc. was the successful bidder for POSO. The sale is effective March 31, 2003. POSO deposits are being replaced with long-term and short-term debt. Accordingly, the POSO liability of $2.2 billion is reflected in Other Liabilities in Interim 2003. Funds will be transferred to the purchaser on April 1, 2003.

(6) Other Liabilities include Accounts Payable, Accrued Liabilities and Pensions and reflect amounts Before Provisional Adjustment for CCRA Error; and Accounting Changes.

(7) For more information on Net Provincial Debt, please see 2001-02 Public Accounts of Ontario, Statement of Financial Position.

DEBT MATURITY SCHEDULE **TABLE I(B)**
Interim 2003[1] ($ Millions)

	Debt Issued for Provincial Purposes[2]			Debt Issued by Province for OEFC Purposes[4]	Total
Year Ending March 31	Publicly Held Debt[3]	Non-Public Debt	Sub-Total		
2004	9,932	2,546	12,478	3,742	16,220
2005	9,071	2,243	11,314	3,250	14,564
2006	14,484	2,600	17,084	925	18,009
2007	5,892	1,903	7,795	119	7,914
2008	5,376	2,410	7,786	836	8,622
1-5 years	44,755	11,702	56,457	8,872	65,329
6-10 years	18,770	10,217	28,987	3,828	32,815
11-15 years	36	1,320	1,356	-	1,356
16-20 years	1,641	2,044	3,685	230	3,915
21-25 years	9,955	26	9,981	25	10,006
26-50 years	11,061	-	11,061	578	11,639
	86,218	25,309	111,527	13,533	125,060

(1) Prepared on the basis of modified accrual and consolidation accounting.
(2) Includes debt issued by Government Organizations.
(3) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province.
(4) This debt is offset by bonds of Ontario Electricity Financial Corporation (OEFC) bearing like terms and conditions to the Ontario obligations. Pursuant to the *Ontario Electricity Act, 1998*, OEFC was established as a continuation of Ontario Hydro on April 1, 1999.

SUMMARY OF ONTARIO ELECTRICITY FINANCIAL CORPORATION (OEFC) — **TABLE I(C)**
Interim Debt 2003 — ($ Millions)

Currency	Canadian Dollar	U.S. Dollar	Japanese Yen	31-March-03 Total	31-March-02 Total
Fiscal Year					
2003	-	-	-	-	6,544
2004	4,558	309	-	4,867	1,666
2005	3,250	-	65	3,315	3,250
2006	500	425	-	925	1,000
2007	619	-	-	619	119
2008	302	1,572	-	1,874	-
1-5 years	9,229	2,306	65	11,600	12,579
6-10 years	6,389	388	-	6,777	8,237
11-15 years	648	1,114	-	1,762	1,843
16-20 years	3,678	-	-	3,678	2,702
21-25 years	2,083	-	-	2,083	3,037
26-50 years	929	-	-	929	966
	22,956	3,808	65	26,829	29,364

OEFC Debt Statistics

Interim 2003 ($ Millions)	2000	2001	2002	Interim 2003	Plan 2004
Debt issued by the Province for OEFC (formerly Ontario Hydro)	9,647	11,195	13,217	13,533	16,200
Debt guaranteed by the Province	21,691	19,371	16,147	13,296	11,400
Total OEFC Debt	31,338	30,566	29,364	26,829	27,600

DESCRIPTION OF DERIVATIVE FINANCIAL INSTRUMENTS

Table I(D)

The table below presents a preliminary maturity schedule of the Province's derivative financial instruments, by type, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts, are not indicative of credit or market risk, and are not representative of actual cash flows.

The Province has sizable financing requirements, largely to refinance maturing indebtedness. To meet these financing requirements in the most cost-effective manner, the Province has issued a variety of debt instruments in domestic and international markets. To take advantage of favourable interest rates, the Province issues debt instruments that are repayable in several currencies other than Canadian dollars.

Derivatives are financial contracts, the value of which is derived from underlying assets. The Province uses derivatives for the purpose of hedging and to minimize interest and currency exchange costs. Hedges are created primarily through swaps, which are legal arrangements, the effect of which is that each party agrees to exchange, with another party, cash flows on a notional amount during a specified period in order to offset or effectively convert its existing obligations. Other derivative instruments used by the Province include forward foreign exchange contracts, forward rate agreements, futures and options.

DERIVATIVE PORTFOLIO NOTIONAL VALUE

Interim 2003 ($ Millions)

Maturity in Fiscal Year	2004	2005	2006	2007	2008	6-10 Years	Over 10 Years	Interim 2003 Total	2002 Total
Swaps:									
Interest rate	2,821	4,442	13,876	1,795	5,539	8,901	7,930	45,304	41,245
Cross currency	3,589	5,915	10,575	1,206	2,512	4,078	-	27,875	29,187
Forward foreign exchange contracts	1,208	-	-	-	-	-	-	1,208	1,252
Futures	251	-	-	-	-	-	-	251	171
	$ 7,869	$ 10,357	$ 24,451	$ 3,001	$ 8,051	$ 12,979	$ 7,930	$ 74,638	$ 71,855

Definitions:

Notional value: represents the volume of outstanding contracts. It does not represent cash flows.

Swap: a legal arrangement, the effect of which is that each of the parties (the counterparty) takes responsibility for a financial obligation incurred by the other counterparty. An interest rate swap exchanges floating interest payments for fixed interest payments or vice versa. A cross-currency swap exchanges principal and interest payments in one currency for cash flows in another currency.

Forward foreign exchange contract: an agreement between two parties to set exchange rates in advance.

Future: a contract that confers an obligation to buy/sell a commodity at a specified price and amount on a future date.

The Province also limits its credit risk exposure on derivatives by entering into contractual agreements that provide for netting arrangements with virtually all of its counterparties, which enables it to settle derivative contracts on a net basis in the event of a counterparty default.

Schedule of Outstanding Debt Issued by the Province of Ontario **TABLE II**
Interim 2003

Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
		Debt Issued for Provincial Purposes			
PAYABLE IN CANADA IN CANADIAN DOLLARS					
NON-PUBLIC DEBT					
To Minister of Finance of Canada					
Canada Pension Plan Investment Fund:					
Year ending March 31					
2004	1984	CPP	10.92 to 12.14	1,200,847,000	
2005	1985	CPP	12.08 to 14.06	1,133,182,000	
2006	1986	CPP	10.58 to 12.57	1,213,502,000	
2007	1987	CPP	9.36 to 10.17	232,269,000	
2008	1988	CPP	10.79	42,300,000	
2012	1992	CPP	9.81 to 10.04	987,249,000	
2013	1993	CPP	9.17 to 9.45	700,137,000	
2019	1999	CPP	5.81 to 5.84	45,270,000	
2020	1999	CPP	5.50 to 6.91	869,889,000	
2021	2000	CPP	6.33 to 6.67	609,834,000	
2022	2001	CPP	6.17 to 6.47	330,994,000	
				7,365,473,000	
Issued by Government Organizations					
2010	1989	CPP	9.15 to 10.31	435,983,000	
2011	1990	CPP	10.36 to 11.33	799,613,000	
2012	1991	CPP	9.81 to 10.04	91,630,000	
2013	1992	CPP	9.17 to 9.45	75,135,000	
				1,402,361,000	
Total to Canada Pension Plan Investment Fund				8,767,834,000	(5)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
To Ontario Teachers' Pension Fund:					
Year ending March 31					
2004	1982-1984	TI	12.88 to 13.34	900,000,000	
2005	1984-1991	TI	12.60 to 13.27	821,000,000	
2006	1985-1991	TI	11.07 to 14.40	1,070,000,000	
2007	1985-1991	TI	10.26 to 13.01	1,185,000,000	
2008	1983-1991	TI	10.15 to 15.38	1,945,000,000	
2009	1986-1991	TI	10.98 to 11.50	1,465,000,000	
2010	1986-1991	TI	10.22 to 11.24	1,236,000,000	
2011	1987	TI	10.11 to 10.32	560,000,000	
2012	1988-1991	TI	10.68 to 11.24	580,000,000	
2013	1989-1991	TI	11.06 to 11.31	625,000,000	
				10,387,000,000	(1)
To Ontario Municipal Employees Retirement Fund:					
Year ending March 31					
2004	1996	MER	9.45	163,695,000	
2007	1996	MER	9.77	102,675,000	
				266,370,000	(1)(38)
To Colleges of Applied Arts & Technology Pension Plan:					
Year ending March 31					
2004	1996	CAAT	9.45	24,255,000	
2007	1996	CAAT	9.77	18,625,000	
				42,880,000	(1)(38)
To Ontario Immigrant Investor Corporation					
Year ending March 31					
2004-2008	2003	OIIC	Zero	41,967,309	(123)
				41,967,309	

Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
To Ryerson Retirement Pension Plan:					
Year ending March 31					
2004	1995	RRPF	12.78	1,081,061	
2005	1995	RRPF	13.33	1,229,597	
2006	1995	RRPF	11.16	1,464,199	
2007	1995	RRPF	9.64	1,618,485	
				5,393,342	(1)
To Canada Mortgage and Housing Corporation:					
Year ending March 31					
2000-2004	1974 to 1975	CMHC	5.125 to 7.875	54,532	
2000-2005	1971 to 1975	CMHC	5.125 to 8.625	389,342	
2000-2006	1973 to 1976	CMHC	5.125 to 10.375	566,844	
2000-2007	1974 to 1977	CMHC	5.375 to 10.375	2,018,879	
2000-2010	1970 to 1975	CMHC	5.75 to 6.875	1,558,695	
2000-2011	1971 to 1976	CMHC	5.375 to 8.25	2,833,542	
2000-2012	1972	CMHC	6.875 to 8.25	3,689,497	
2000-2013	1973	CMHC	7.25 to 8.25	700,166	
2000-2014	1974	CMHC	6.125 to 8.25	11,361,699	
2000-2015	1975	CMHC	7.50 to 10.375	7,151,935	
2000-2016	1976	CMHC	5.375 to 10.75	15,348,205	
2000-2017	1977	CMHC	7.625 to 10.75	11,465,977	
2000-2018	1977 to 1978	CMHC	7.625 to 13.00	29,585,263	
2000-2019	1977 to 1980	CMHC	7.625 to 15.25	33,762,881	
2000-2020	1978 to 1980	CMHC	7.625 to 15.75	54,158,503	
2000-2021	1981	CMHC	9.50 to 15.75	26,114,815	
2000-2022	1982	CMHC	9.75 to 15.75	1,037,170	
				201,797,945	(7)

Table title: TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
Issued by Government Organizations					
2004	N/A	CMHC	5.207	10,075	
2005	N/A	CMHC	5.125	12,810	
2006	N/A	CMHC	4.25	41,238	
2007	N/A	CMHC	4.674	203,017	
2008	N/A	CMHC	5.875	165,659	
2009	N/A	CMHC	5.375	138,646	
2010	N/A	CMHC	6.46	718,642	
2011	N/A	CMHC	6.416	6,604,779	
2012	N/A	CMHC	5.299	341,767	
2013	N/A	CMHC	5.375	5,146,880	
2014	N/A	CMHC	5.621	15,783,554	
2015	N/A	CMHC	5.822	14,694,383	
2016	N/A	CMHC	6.139	40,279,091	
2017	N/A	CMHC	6.249	63,012,260	
2018	N/A	CMHC	7.133	52,518,737	
2019	N/A	CMHC	5.875 to 7.616	56,864,700	
2020	N/A	CMHC	6.25 to 7.85	174,236,741	
2021	N/A	CMHC	6.875 to 7.56	85,941,610	
2022	N/A	CMHC	6.089 to 6.875	94,426,729	
2023	N/A	CMHC	6.089 to 7.25	75,238,542	
2024	N/A	CMHC	6.089	60,149,021	
2025	N/A	CMHC	6.089 to 7.50	55,100,409	
2026	N/A	CMHC	6.089	21,953,380	
2027	N/A	CMHC	6.089	22,393,095	
2028	N/A	CMHC	6.089	3,403,370	
Various	N/A	CMHC	Various	27,149,000	
				876,528,135	(7)
Total to Canada Mortgage and Housing Corporation				**1,078,326,080**	

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued					
Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
To Public Service Pension Fund:					
Year ending March 31					
2004	1997	OPB	9.50 to 14.65	67,265,166	
2005	1997	OPB	9.82 to 12.78	160,431,479	
2006	1997	OPB	11.05 to 13.33	172,212,515	
2007	1997	OPB	11.16 to 13.33	188,766,466	
2008	1997	OPB	15.38	218,362,903	
2009	1997	OPB	12.79	264,512,886	
2010	1997	OPB	12.88	273,669,452	
2011	1997	OPB	13.33	282,994,558	
2012	1997	OPB	11.55	336,229,108	
2013	1997	OPB	10.38	374,479,804	
2014	1997	OPB	11.10	409,677,031	
2015	1997	OPB	11.19	450,938,707	
				3,199,540,075	(1)(23)(65)
To Public Service Employees' Union Pension Fund:					
Year ending March 31					
2004	1997	OPPT	9.50 to 14.65	31,954,627	
2005	1997	OPPT	9.82 to 12.78	76,213,714	
2006	1997	OPPT	11.05 to 13.33	81,810,350	
2007	1997	OPPT	11.16 to 13.33	89,674,381	
2008	1997	OPPT	15.38	103,734,305	
2009	1997	OPPT	12.79	125,658,067	
2010	1997	OPPT	12.88	130,007,936	
2011	1997	OPPT	13.33	134,437,870	
2012	1997	OPPT	11.55	159,727,189	
2013	1997	OPPT	10.38	177,898,359	
2014	1997	OPPT	11.10	194,618,964	
2015	1997	OPPT	11.19	214,220,513	
				1,519,956,275	(1)(23)(65)
TOTAL NON-PUBLIC DEBT ISSUED				**25,309,267,081**	

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
PAYABLE IN CANADA IN CANADIAN DOLLARS					
PUBLICLY HELD DEBT					
Apr. 22, 2003	Dec. 29, 1992	HG	8.75	750,000,000	(1)
July 13, 2003	Jan. 13, 2000	NB	Floating	100,000,000	(8)
Sept. 16, 2003	Sept. 16, 1998	MA	Floating	100,000,000	(1)(73)
June 2, 2004	Feb. 3, 2000	MG	4.875	190,600,000	(1)(97)
June 4, 2004	Oct. 4, 2001	DMTN20	Floating	75,500,000	(1)(102)
June 11, 2004	Oct. 11, 2001	DMTN21	Floating	50,000,000	(1)(100)
July 2, 2004	July 2, 2002	DMTN50	Floating	50,000,000	(129)
Sept. 15, 2009	June 21, 1994	HU	9.00	1,450,000,000	(1)
Nov. 4, 2009	Nov. 4, 2002	DMTN55	Step-Up	25,000,000	(2)
Nov. 27, 2009	Nov. 27, 2002	DMTN56	Step-Up	25,000,000	(17)
Dec. 2, 2004	June 11, 2002	DMTN48	6.40	94,290,000	(130)
Dec. 2, 2014	Oct. 28, 1999	MV	6.40	12,710,000	(34)(49)
Dec. 18, 2009	Dec. 18, 2002	DMTN57	Step-Up	25,000,000	(96)
Jan. 31, 2011	Jan. 31, 2003	DMTN58	Step-Up	25,000,000	(139)
Feb. 18, 2010	Feb. 18, 2003	DMTN59	Step-Up	25,000,000	(85)
Mar. 1, 2005	Mar. 1, 2002	DMTN38	Floating	50,000,000	(115)
Mar. 8, 2005	Dec. 10, 1999	MZ	6.25	1,052,875,000	(1)(106)
May 13, 2005	May 13, 1999	ML	5.85	50,000,000	(44)
Dec. 1, 2005	Sept. 13, 1995	JP	8.25	1,000,000,000	(1)
Feb. 1, 2006	Feb. 1, 1999	MJ	5.00	90,000,000	(1)
Feb. 1, 2006	Feb. 1, 2002	DMTN34	Floating	500,000,000	(1)(105)
Feb. 20, 2006	Feb. 20, 1996	JZ	0.00 to 17.25	107,000,000	(1)(40)
Mar. 8, 2006	Oct. 26, 2000	NL	5.90	995,710,000	(1)(97)
July 20, 2006	July 20, 2001	DMTN6	Step-Up	45,000,000	(3)
July 24, 2006	July 24, 1996	KE	7.75	700,000,000	(1)(39)(78)
Aug. 21, 2006	Aug. 21, 2001	DMTN9	Step-Up	25,000,000	(22)
Sept. 5, 2006	Sept. 5, 2001	DMTN12	Step-Up	25,000,000	(26)
Sept. 11, 2006	Sept. 11, 2001	DMTN13	Step-Up	30,000,000	(36)
Sept. 11, 2006	Sept. 11, 2001	DMTN14	6.25	125,000,000	(32)
Nov. 28, 2006	Nov. 28, 2001	DMTN25	Step-Up	25,000,000	(94)
Dec. 12, 2006	Dec. 12, 2001	DMTN27	Step-Up	25,000,000	(88)
Jan. 12, 2007	Jan. 12, 1995	JF	9.50	132,950,000	(1)(21)
Feb. 12, 2007	Feb. 12, 2002	DMTN35	Step-Up	50,000,000	(108)
Feb. 20, 2007	Nov. 20, 2001	DMTN24	Step-Up	100,000,000	(95)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding Issue ($)	Reference
PUBLICLY HELD DEBT - Continued					
Mar. 1, 2007	Mar. 1, 2002	DMTN36	Step-Up	35,000,000	(113)
Mar. 8, 2007	Sept. 11, 2001	DMTN16	5.20	1,499,640,000	(1)(77)(97)
Mar. 19, 2007	Mar. 19, 2002	DMTN41	Step-Up	25,000,000	(6)
May 3, 2007	May 3, 2002	DMTN43	Step-Up	30,000,000	(131)
June 4, 2007	Dec. 4, 2001	DMTN28	Step-Up	30,000,000	(72)
June 18, 2007	Dec. 18, 2001	DMTN31	Step-Up	33,000,000	(111)
July 21, 2007	Jan. 21, 2002	DMTN32	Step-Up	35,000,000	(112)
July 15, 2007	July 15, 2002	DMTN49	Step-Up	50,000,000	(136)
Aug. 27, 2007	Aug. 27, 2001	DMTN11	Step-Up	25,000,000	(42)
Sept. 12, 2007	Sept. 12, 1997	LE	6.125	1,145,000,000	(1)(39)
Nov. 15, 2007	May 15, 2002	DMTN47	Step-Up	25,000,000	(134)
Dec. 10, 2007	Dec. 10, 1997	LH	5.875	66,475,000	(1)
June 3, 2008	June 3, 1999	MN	Floating	50,000,000	(46)
July 15, 2008	Feb. 6, 1998	LM	5.50	75,000,000	(1)
Sept. 4, 2008	Sept. 4, 1998	LW	6.30	50,000,000	(1)
Sept. 17, 2008	Sept. 17, 2001	DMTN15	Step-Up	38,000,000	(52)
Oct. 22, 2008	Oct. 22, 2001	DMTN22	Step-Up	25,000,000	(99)
Dec. 1, 2008	Mar. 5, 2002	DMTN39	Floating	150,000,000	(116)
Dec. 1, 2008	Sept. 15, 1998	LZ	5.70	1,550,000,000	(1)
Dec. 5, 2008	Dec. 5, 2001	DMTN30	Step-Up	50,000,000	(110)
Mar. 3, 2009	Mar. 3, 2003	DMTN60	Step-Up	25,000,000	(140)
Mar. 17, 2009	Mar. 17, 2003	DMTN63	Step-Up	25,000,000	(141)
Mar. 18, 2009	Mar. 18, 2002	DMTN40	Step-Up	30,000,000	(117)
Apr. 1, 2009	Apr. 9, 1998	LR	6.15	205,000,000	(87)
Apr. 3, 2009	Apr. 3, 2002	DMTN42	Step-Up	45,000,000	(132)
May 6, 2009	May 6, 2002	DMTN45	Step-Up	36,000,000	(133)
July 23, 2009	July 23, 2002	DMTN51	Step-Up	25,000,000	(137)
July 27, 2009	July 27, 1999	MR	5.75 to 6.50	40,000,000	(25)
Sept. 4, 2009	Sept. 4, 1997	LD	6.00 to 7.625	75,000,000	(71)
Sept. 10, 2009	Sept. 10, 2002	DMTN52	Step-Up	35,000,000	(138)
Oct. 3, 2009	Oct. 3, 2001	DMTN19	Step-Up	33,000,000	(103)
Nov. 19, 2009	Mar. 19, 1999	MU	6.20	900,000,000	(1)(109)
Mar. 4, 2010	Mar. 4, 2002	DMTN37	Step-Up	25,000,000	(114)
May 30, 2010	May 30, 2001	DMTN4	Step-Up	50,000,000	(59)
June 28, 2010	June 28, 2001	DMTN5	Step-Up	30,000,000	(68)
July 30, 2010	July 30, 2001	DMTN7	Step-Up	25,000,000	(70)
Nov. 19, 2010	Nov. 24, 2000	NK	6.10	1,620,000,000	(1)
Sept. 28, 2011	Sept. 28, 2001	DMTN17	Step-Up	40,000,000	(104)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
PUBLICLY HELD DEBT - Continued					
Oct. 5, 2011	Oct. 5, 2001	DMTN18	Step-Up	40,000,000	(101)
Oct. 30, 2011	Oct. 30, 2001	DMTN23	Step-Up	35,000,000	(16)
Nov. 29, 2011	Nov. 29, 2001	DMTN26	Step-Up	50,000,000	(89)
Dec. 2, 2011	Feb. 27, 2002	DMTN8	6.10	1,000,000,000	(1)(60)
July 7, 2012	May 18, 2002	DMTN46	Zero	25,269,411	(98)
Oct. 15, 2012	Oct. 15, 2002	DMTN54	Step-Up	30,000,000	(86)
Dec. 2, 2012	Dec. 2, 2002	DMTN53	5.375	2,000,000,000	(1)
Sept. 1, 2015	Sept. 1, 2000	DMTN1	6.25	34,000,000	(1)(45)
Sept. 4, 2020	Sept. 4, 1998	LY	6.30	50,000,000	(135)
July 13, 2022	July 13, 1992	HC	9.50	1,590,438,000	(1)(53)
Sept. 8, 2023	Sept. 8, 1993	HP	8.10	1,350,000,000	(1)
June 2, 2025	Dec. 20, 1994	JE	9.50	500,000,000	(1)
Dec. 2, 2025	Oct. 5, 1995	JQ	8.50	1,000,000,000	(1)
Feb. 6, 2026	Feb. 6, 1996	JY	8.00	12,500,000	(1)
June 2, 2026	Dec. 21, 1995	JU	8.00	1,000,000,000	(1)
Dec. 2, 2026	Feb. 13, 1997	KR	8.00	386,500,000	(1)
Dec. 2, 2026	Jan. 20, 1999	MH	7.00	124,584,000	(1)(90)
Feb. 3, 2027	Aug. 5, 1997	KN	7.50	58,220,000	(18)
Feb. 3, 2027	Aug. 5, 1997	KT	6.95	8,726,000	(74)
Feb. 3, 2027	Aug. 1, 1997	KY	7.50	11,549,000	(1)
Feb. 3, 2027	Dec. 4, 1998	LA	7.50	5,507,000	(1)
Feb. 4, 2027	Feb. 4, 1998	KQ	7.375	990,000	(1)
June 2, 2027	Oct. 17, 1996	KJ	7.60	4,237,700,000	(1)(75)
Aug. 25, 2028	Feb. 25, 1998	LQ	6.25	2,020,000	(1)
Mar. 8, 2029	Jan. 8, 1998	LK	6.50	4,677,000,000	(1)
Jan. 13, 2031	Sept. 8, 1995	JN	9.50	125,000,000	(1)
June 2, 2031	Mar. 27, 2000	NF	6.20	2,500,000,000	(1)(107)
Mar. 3, 2033	Feb. 17, 2003	DMTN61	5.85	1,000,000,000	(1)
Nov. 3, 2034	Nov. 3, 1994	HY	9.75	280,000,000	(1)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
PUBLICLY HELD DEBT - Continued					
Jan. 10, 1995 to Jan. 10, 2035	Nov. 30, 1994	HZ	9.4688	2,315,904	(1)(24)
" "	" "	JA	9.4688	16,636,760	(1)(24)(82)
" "	" "	JB	9.4688	8,482,324	(1)(24)
" "	" "	JC	9.4688	4,764,354	(1)(24)
" "	" "	JD	9.4688	3,171,134	(1)(24)
Feb. 8, 2035	Feb. 8, 1995	JJ	9.875	73,000,000	(19)
June 20, 2036	June 28, 1996	KC	8.25	211,000,000	(1)
June 20, 2038	Sept. 16, 1996	KG	8.10	120,000,000	(1)
July 13, 2038	July 29, 1998	LS	5.75	50,000,000	(1)
Aug. 25, 2038	Aug. 17, 1998	LT	6.00	100,000,000	(1)
July 13, 2039	Feb. 2, 1999	MK	5.65	300,000,000	(1)
Dec. 2, 2039	Feb. 25, 2000	NE	5.70	553,700,000	(1)
July 13, 2040	Apr. 18, 2002	DMTN44	6.20	50,000,000	(1)
Dec. 2, 2041	Aug. 15, 2001	DMTN10	6.20	290,000,000	(1)(126)
Mar. 8, 2042	Dec. 4, 2001	DMTN29	6.00	41,000,000	(1)
June 2, 2042	Jan. 18, 2002	DMTN33	6.00	140,000,000	(1)(128)
June 2, 2043	Feb. 24, 2003	DMTN62	5.75	50,000,000	(1)
June 10, 2045	May 25, 1995	JL	8.435	35,531,176	(1)(41)
Mar. 1, 2045	Mar. 1, 1995	JK	9.50	150,000,000	(20)
				40,712,355,063	
ONTARIO SAVINGS BONDS					
Mar. 1, 2000	Mar. 1, 1995	Annual	Variable	2,590,400	(29)
Mar. 1, 2000	Mar. 1, 1995	Compound	Variable	4,472,350	(29)
June 21, 2000	June 21, 1997	Annual	Fixed	371,100	(29)
June 21, 2000	June 21, 1997	Compound	Fixed	221,800	(29)
June 21, 2001	June 21, 1996	Annual	Step-Up	1,483,800	(29)
June 21, 2001	June 21, 1996	Compound	Step-Up	2,933,100	(29)
June 21, 2001	June 21, 1996	Annual	Variable	686,900	(29)
June 21, 2001	June 21, 1996	Compound	Variable	500,600	(29)
June 21, 2001	June 21, 1998	Annual	Fixed	444,200	(29)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued					
Date of Maturity	**Date of Issue**	**Series**	**Interest Rate (%)**	**Outstanding ($)**	**Reference**
ONTARIO SAVINGS BONDS - Continued					
June 21, 2001	June 21, 1998	Compound	Fixed	558,800	(29)
June 21, 2002	June 21, 1999	Annual	Fixed	2,390,300	(29)
June 21, 2002	June 21, 1999	Compound	Fixed	3,537,600	(29)
June 21, 2003	June 21, 1998	Compound	Step-Up	246,371,300	(62)(92)
June 21, 2003	June 21, 1998	Annual	Step-Up	270,137,100	(62)(92)
June 21, 2003	June 21, 2000	Annual	Fixed	438,656,400	(30)(62)
June 21, 2003	June 21, 2000	Compound	Fixed	354,083,900	(30)(62)
June 21, 2004	June 21, 1997	Annual	Step-Up	445,456,400	(62)(66)
June 21, 2004	June 21, 1997	Compound	Step-Up	361,201,500	(62)(66)
June 21, 2004	June 21, 1997	Annual	Variable	9,890,400	(62)(67)
June 21, 2004	June 21, 1997	Compound	Variable	10,082,200	(62)(67)
June 21, 2004	June 21, 1999	Compound	Step-Up	244,513,350	(62)(28)
June 21, 2004	June 21, 1999	Annual	Step-Up	237,819,100	(62)(28)
June 21, 2004	June 21, 2001	Annual	Fixed	709,584,100	(30)(62)
June 21, 2004	June 21, 2001	Compound	Fixed	560,437,400	(30)(62)
June 21, 2005	June 21, 1998	Annual	Variable	67,563,100	(62)(81)
June 21, 2005	June 21, 1998	Compound	Variable	70,412,700	(62)(81)
June 21, 2005	June 21, 2000	Annual	Step-Up	705,343,800	(62)(48)
June 21, 2005	June 21, 2000	Compound	Step-Up	601,201,150	(62)(48)
June 21, 2005	June 21, 2002	Annual	Fixed	531,693,300	(62)(30)
June 21, 2005	June 21, 2002	Compound	Fixed	502,633,100	(62)(30)
June 21, 2006	June 21, 1999	Compound	Variable	72,197,600	(62)(81)
June 21, 2006	June 21, 1999	Annual	Variable	52,920,600	(62)(81)
June 21, 2006	June 21, 2001	Annual	Step-Up	869,007,500	(62)(63)
June 21, 2006	June 21, 2001	Compound	Step-Up	1,077,474,100	(62)(63)
June 21, 2007	June 21, 2000	Compound	Variable	116,973,650	(62)(56)
June 21, 2007	June 21, 2000	Annual	Variable	90,312,600	(62)(56)
June 21, 2007	June 21, 2002	Annual	Step-Up	196,374,400	(62)(124)
June 21, 2007	June 21, 2002	Compound	Step-Up	255,628,700	(62)(124)
June 21, 2008	June 21, 2001	Annual	Variable	93,684,000	(62)(64)
June 21, 2008	June 21, 2001	Compound	Variable	99,940,700	(62)(64)
June 21, 2009	June 21, 2002	Annual	Variable	356,705,800	(62)(127)
June 21, 2009	June 21, 2002	Compound	Variable	249,823,200	(62)(127)
				9,918,314,100	
TOTAL PAYABLE IN CANADA IN CANADIAN DOLLARS				75,939,936,244	(1)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
GLOBAL MARKET PAYABLE IN CANADIAN DOLLARS					
Dec. 8, 2003	July 20, 1993	HM	7.75	1,250,000,000	
Jan. 24, 2005	Jan. 24, 2000	NC	Floating	500,000,000	(50)
Jan. 19, 2006	Jan. 19, 1996	JV	7.50	1,240,000,000	(39)
Feb. 7, 2024	Feb. 7, 1994	HS	7.50	1,250,000,000	
TOTAL PAYABLE IN CANADIAN DOLLARS				4,240,000,000	(1)
PAYABLE IN EUROPE IN CANADIAN DOLLARS					
Nov. 27, 2003	Nov. 27, 1998	ME	5.00	250,000,000	
Sept. 27, 2005	Sept. 27, 1993	HQ	7.25	500,000,000	
Dec. 1, 2005	Dec. 1, 1999	EMTN045	6.50	375,000,000	
Jan. 23, 2006	Jan. 23, 2003	EMTN053	3.50	100,000,000	
Aug. 9, 2006	Aug. 9, 2001	EMTN049	5.75	100,000,000	
Sept. 10, 2007	Sept. 10, 2002	EMTN052	4.375	750,000,000	
Dec. 31, 2007	Jan. 16, 2002	EMTN051	5.125	350,000,000	(31)
Jan. 27, 2009	Jan. 27, 1999	EMTN042	5.00	350,000,000	
Nov. 30, 2011	Nov. 30, 2001	EMTN050	5.25	450,000,000	(58)
July 13, 2034	July 13, 1994	EMTN005	9.40	300,000,000	
TOTAL PAYABLE IN EUROPE IN CANADIAN DOLLARS				3,525,000,000	(1)
PAYABLE IN THE UNITED STATES IN CANADIAN DOLLARS					
Feb. 18, 2013	Feb. 18, 1993	HJ	9.24	250,000,000	
TOTAL PAYABLE IN THE UNITED STATES IN CANADIAN DOLLARS				250,000,000	(1)
PAYABLE IN THE UNITED STATES IN U.S. DOLLARS					
June 30, 2005	Mar. 13, 2002	NP	4.20	250,000,000	
TOTAL PAYABLE IN THE UNITED STATES IN U.S. DOLLARS				250,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.5885				397,125,000	(10)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
GLOBAL MARKET PAYABLE IN U.S. DOLLARS					
June 22, 2004	June 22, 1994	HV	7.625	1,000,000,000	
Aug. 4, 2005	Aug. 4, 1995	JM	7.00	1,250,000,000	
Dec. 15, 2005	Nov. 26, 2002	NT	2.625	481,691,920	(125)
Feb. 21, 2006	Feb. 21, 1996	KA	6.00	2,050,000,000	
Sept. 17, 2007	Sept. 17, 2002	NR	3.50	1,000,000,000	
Oct. 1, 2008	Oct. 1, 1998	MB	5.50	1,750,000,000	
Dec. 15, 2009	Oct. 1, 2002	NS	3.75	300,000,000	
July 17, 2012	July 17, 2002	NQ	5.125	750,000,000	
Feb. 15, 2013	Feb. 7, 2003	NU	4.375	500,000,000	
TOTAL PAYABLE IN U.S. DOLLARS				9,081,691,920	(1)
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $1.47419				13,388,151,133	(43)
PAYABLE IN CANADA IN U.S. DOLLARS					
Apr. 24, 2005	Apr. 24, 1995	DMTN1	Floating	100,000,000	
May 1, 2005	May 1, 1995	DMTN2	Floating	100,000,000	
May 9, 2005	May 9, 1995	DMTN3	Floating	100,000,000	
May 16, 2005	May 16, 1995	DMTN4	Floating	100,000,000	
TOTAL PAYABLE IN CANADA IN U.S. DOLLARS				400,000,000	(35)
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $1.36625				546,500,000	(9)
PAYABLE IN EUROPE IN U.S. DOLLARS					
June 12, 2003	Jan. 19, 2001	EMTN047	Floating	100,000,000	
TOTAL PAYABLE IN EUROPE IN U.S. DOLLARS				100,000,000	(1)
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $1.5260				152,600,000	(11)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued					
Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
PAYABLE IN JAPAN IN JAPANESE YEN					
Aug. 25, 2003	Aug. 25, 1993	YL003	Floating	10,000,000,000	(1)(4)
Sept. 22, 2003	Sept. 22, 1993	YL004	5.20	10,000,000,000	(1)
July 6, 2004	July 6, 1994	YL005	4.40	10,000,000,000	(1)
July 21, 2004	July 21, 1994	YL006	4.53	10,000,000,000	(1)
Sept. 8, 2004	Sept. 7, 1994	YL008	4.71	7,000,000,000	(1)
Oct. 25, 2004	Oct. 25, 1994	YL009	5.00	10,000,000,000	(1)
Dec. 20, 2004	Dec. 20, 1994	YL010	4.80	5,000,000,000	(1)
Aug. 31, 2005	Aug. 31, 1995	YL011	3.10	25,000,000,000	(1)
Mar. 16, 2007	Mar. 18, 1997	KU	3.10	5,000,000,000	(1)(54)
Mar. 16, 2007	Mar. 18, 1997	KV	3.25	15,000,000,000	(1)(55)
July 18, 2007	July 18, 1997	YL012	2.615	10,000,000,000	(1)
Nov. 12, 2009	Nov. 12, 1999	YL014	2.00	10,000,000,000	(1)
TOTAL PAYABLE IN JAPAN IN JAPANESE YEN				127,000,000,000	
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $0.01313				1,667,763,321	(14)
GLOBAL MARKET PAYABLE IN JAPANESE YEN					
Jan. 25, 2010	Jan. 25, 2000	ND	1.875	50,000,000,000	
TOTAL PAYABLE IN JAPANESE YEN				50,000,000,000	(1)
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $0.01248				624,152,136	(122)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
PAYABLE IN EUROPE IN JAPANESE YEN					
Mar. 15, 2005	Mar. 15, 1995	EMTN015	6.00	2,000,000,000	(33)
Sept. 8, 2005	Mar. 23, 1998	EMTN037	6.21	10,000,000,000	
Sept. 19, 2005	Sept. 4, 1998	EMTN038	6.205	10,000,000,000	
Aug. 29, 2006	Aug. 29, 1996	EMTN021	4.28	10,000,000,000	(57)
Mar. 26, 2007	Apr. 3, 1997	EMTN033	3.20	10,000,000,000	(47)
June 13, 2007	June 13, 1997	EMTN034	3.58	10,000,000,000	(79)
Feb. 25, 2008	Feb. 25, 1998	EMTN036	2.60	7,100,000,000	(80)
Nov. 19, 2009	Nov. 24, 1999	EMTN046	2.00	10,000,000,000	
TOTAL PAYABLE IN EUROPE IN JAPANESE YEN				69,100,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $0.01278				883,354,744	(15)
PAYABLE IN EUROPE IN AUSTRALIAN DOLLARS					
Mar. 7, 2008	Mar. 7, 2003	EMTN054	4.75	100,000,000	
TOTAL PAYABLE IN AUSTRALIAN DOLLARS				100,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $0.89714				89,713,600	(142)
PAYABLE IN EUROPE IN EUROS					
Jan. 13, 2004	Jan. 13, 1994	HR	6.25	735,825,710	(119)
Sept. 27, 2004	Sept. 27, 1994	HX	7.75	181,512,086	(120)
Feb. 17, 2006	Feb. 17, 1999	EMTN043	3.50	27,000,000	(1)
July 29, 2008	July 29, 1996	KD	6.875	457,347,051	(121)
July 21, 2009	July 21, 1997	EMTN035	5.875	457,347,051	(118)
Mar. 12, 2010	Mar. 12, 2003	EMTN055	3.50	400,000,000	(143)
TOTAL PAYABLE IN EUROPE IN EUROS				2,259,031,898	
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.75148				3,956,660,123	(27)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
GLOBAL MARKET PAYABLE IN NEW ZEALAND DOLLARS					
Mar. 3, 2008	Mar. 3, 2003	NV	5.75	250,000,000	
Dec. 3, 2008	Dec. 3, 1998	MF	6.25	250,000,000	
TOTAL PAYABLE IN NEW ZEALAND DOLLARS				500,000,000	(1)
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $0.83151				415,754,000	(69)
PAYABLE IN EUROPE IN NORWEGIAN KRONER					
Dec. 29, 2004	Sept. 12, 1996	EMTN022	7.00	300,000,000	
TOTAL PAYABLE IN EUROPE IN NORWEGIAN KRONER				300,000,000	(1)
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $0.21235				63,704,048	(61)
PAYABLE IN EUROPE IN POUNDS STERLING					
June 10, 2004	June 10, 1998	EMTN039	6.375	200,000,000	
TOTAL PAYABLE IN EUROPE IN POUNDS STERLING				200,000,000	(1)
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $2.3635				472,700,000	(12)
PAYABLE IN EUROPE IN SWISS FRANCS					
July 7, 2003	July 7, 1998	EMTN041	2.50	250,000,000	
TOTAL PAYABLE IN EUROPE IN SWISS FRANCS				250,000,000	(1)
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $0.99726				249,315,000	(13)
TOTAL DEBENTURES AND BONDS				81,553,162,268	
TREASURY BILLS				2,971,000,000	(84)
U.S. COMMERCIAL PAPER (in U.S. Dollars)				817,420,000	
CANADIAN DOLLAR EQUIVALENT					
EXCHANGE RATE OF $1.53674				1,256,161,845	(91)

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
Other Debt Issued by Government Organizations					
PAYABLE IN THE UNITED STATES IN U.S. DOLLARS					
July 1, 2006	Mar. 31, 1994	Collateralized financing	7.261 to 7.395	313,102,206	
TOTAL PAYABLE IN THE UNITED STATES IN U.S. DOLLARS				313,102,206	
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.3977				437,624,036	
TOTAL PUBLICLY HELD DEBT ISSUED				**86,217,948,149**	
TOTAL DEBT ISSUED FOR PROVINCIAL PURPOSES				**111,527,215,230**	(83)
Debt Issued for Ontario Electricity Financial Corporation (OEFC)*					
PAYABLE IN CANADA IN CANADIAN DOLLARS					
NON-PUBLIC DEBT					
Canada Pension Plan Investment Fund					
2007	1986	CPP	9.64	119,000,000	
2008	1988	CPP	9.13 to 9.72	388,715,000	
2009	1989	CPP	9.62 to 10.31	589,319,000	
2010	1990	CPP	9.61 to 10.31	650,712,000	
2021	2001	CPP	6.08	19,375,000	
2022	2002	CPP	6.17 to 6.29	172,961,000	
2023	2003	CPP	6.16	38,130,000	
TOTAL PAYABLE IN CANADA IN CANADIAN DOLLARS				1,978,212,000	(5)

* This debt is offset by Bonds of Ontario Electricity Financial Corporation (OEFC) bearing like terms and conditions to the Ontario obligations. Pursuant to the *Ontario Electricity Act, 1998*, OEFC was established as a continuation of Ontario Hydro on April 1, 1999.

TABLE II Schedule of Outstanding Debt Issued by the Province of Ontario - Continued					
Date of Maturity	Date of Issue	Series	Interest Rate (%)	Outstanding ($)	Reference
PAYABLE IN CANADA IN CANADIAN DOLLARS					
PUBLICLY HELD DEBT					
June 2, 2004	Dec. 9, 1998	HC-MG	4.875	3,000,000,000	(76)
Mar. 8, 2006	Mar. 8, 2001	CDB-NLA	5.90	500,000,000	
Dec. 1, 2008	Jan. 22, 1999	HC-LZ	5.70	650,000,000	
Nov. 19, 2009	July 26, 2000	HC-MU	6.20	500,000,000	
Nov. 19, 2010	Sept. 1, 2000	HC-NK	6.10	500,000,000	
Mar. 15, 2011	Mar. 15, 2001	DMTN3	5.50	50,000,000	(37)
Dec. 2, 2011	July 20, 2001	DMTN8	6.10	500,000,000	(60)
June 2, 2027	Feb. 4, 2000	HC-KJA	7.60	25,500,000	
Aug. 25, 2028	Apr. 6, 1999	HC-LQA	6.25	78,600,000	
June 2, 2031	Feb. 24, 2000	HC-NF	6.20	500,000,000	(51)
				6,304,100,000	
PAYABLE IN EUROPE IN CANADIAN DOLLARS					
Nov. 27, 2003	June 17, 1999	HC-ME	5.00	350,000,000	
Feb. 28, 2005	Feb. 28, 2001	EMTN-48	5.25	250,000,000	
				600,000,000	
GLOBAL MARKET PAYABLE IN U.S. DOLLARS					
Dec. 15, 2005	Nov. 26, 2002	GLB-NTB	2.625	268,308,080	(125)
Mar. 28, 2008	Feb. 26, 2003	GLB-NW	3.282	300,000,000	
Oct. 1, 2008	Mar. 19, 2001	GLB-MBB	5.50	250,000,000	
TOTAL PAYABLE IN U.S. DOLLARS				818,308,080	
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.5392				1,259,499,999	(93)
TREASURY BILLS				3,081,788,000	
U.S. COMMERCIAL PAPER (in U.S. Dollars)				204,000,000	
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF $1.5166				309,386,150	
TOTAL DEBT ISSUED FOR ONTARIO ELECTRICITY FINANCIAL CORPORATION (OEFC)				**13,532,986,149**	

References:

1. Non-callable.
2. Bonds are extendible at the option of the Province on the Initial Maturity Date of November 4, 2004, and on each Extended Maturity Date thereafter to the final maturity date of November 4, 2009. Coupon interest is paid semi-annually at a rate of 4.10% in years 1-2, 4.55% in year 3, 5.40% in year 4, 6.0% in year 5, 6.75% in year 6, and 7.5% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligations on this debt to 3.40%.
3. Bonds are extendible at the option of the Province every six months starting July 20, 2003, to the final maturity date of July 20, 2006. Coupon interest is paid monthly at a rate of 5.35% in years 1-2, 5.90% in year 3, 6.50% in year 4, and 7.00% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.99%.
4. Interest payable is six-month Yen LIBOR.
5. Securities sold to the Canada Pension Plan Investment Fund are payable 20 years after their respective dates of issue, are not negotiable and not transferable or assignable but are redeemable in whole or in part before maturity at the option of the Minister of Finance of Canada, on six months' prior notice, when the Minister deems it necessary in order to meet the requirements of the Canada Pension Plan. In the case of redemption before maturity, the Ontario Securities are to be redeemed in the order in which they were issued and the amount of Ontario Securities to be redeemed at any time shall be proportionate to the amount of all securities then held to the credit of the said fund represented by Ontario Securities.
6. Bonds are extendible at the option of the Province on the Initial Maturity Date of March 19, 2004, and on each Extended Maturity Date thereafter to the final maturity date of March 19, 2007. Coupon interest is paid semi-annually at a rate of 4.20% in years 1-2, 4.75% in year 3, 5.75% in year 4, and 7.1% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligations on this debt to floating three-month Canadian BA rate minus 0.09%.
7. The terms of these debentures require that equal payments be made each year until their maturity. Each payment consists of blended principal and interest.
8. Interest payable is three-month Canadian BA.
9. The Province entered into currency exchange agreements that effectively converted these U.S. dollar obligations to Canadian dollar obligations at an exchange rate of 1.36625. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 8.64%.
10. The Province entered into currency exchange agreements that effectively converted these U.S. dollar obligations to Canadian dollar obligations at an exchange rate of 1.5885. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a floating rate Canadian dollar three-month BA rate minus 0.07%.
11. The Province entered into currency exchange agreements that effectively converted these U.S. dollar obligations to Canadian dollar obligations at an exchange rate of 1.5260. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.85%.
12. The Province entered into currency exchange agreements that effectively converted these Pounds Sterling obligations to Canadian dollar obligations at an exchange rate of 2.3635. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.50%.
13. The Province entered into currency exchange agreements that effectively converted these Swiss franc obligations to Canadian dollar obligations at an exchange rate of 0.99726. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a floating Canadian BA rate minus 0.025%.
14. The Province entered into currency exchange agreements that effectively converted substantially all of these Japanese yen obligations to Canadian dollar obligations at an exchange rate of 0.01313. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 7.87% on $1,448 million, and floating Canadian BA rate minus 0.051% on $220 million.
15. The Province entered into currency exchange agreements that effectively converted substantially all of these Japanese yen obligations to Canadian dollar obligations at an exchange rate of 0.01278. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.78%.
16. Bonds are extendible at the option of the Province on the Initial Maturity Date of October 30, 2003, and on each Extended Maturity Date thereafter to the final maturity date of October 30, 2011. Coupon interest is paid monthly at a rate of 4.75% in year 1. 5.0% in year 2, 5.25% in year 3, 5.50% in year 4, 5.75% in year 5, 6.00% in year 6, 6.50% in year 7, 6.75% in year 8, 7.00% in year 9 and 7.25% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.12%.

17. Bonds are extendible at the option of the Province on the Initial Maturity Date of November 27, 2004, and on each Extended Maturity Date thereafter to the final maturity date of November 27, 2009. Coupon interest is paid semi-annually at a rate of 4.0% in years 1-2, 4.2% in year 3, 4.55% in year 4, 5.35% in year 5, 6.05% in year 6, and 6.55% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.372%.
18. During the 2002-03 fiscal year, the Province purchased for cancellation $4.38 million of the KN Series bonds.
19. Retractable in whole or in part on February 8, 2007, at the holder's option, provided that the notice of retraction is made during the period from July 15, 2006 to January 15, 2007 inclusive. Such election is irrevocable.
20. Retractable in whole or in part on March 1, 2010, at the holder's option, provided that the notice of retraction is made during the period from March 1, 1995 to February 12, 2010 inclusive. Such election is irrevocable.
21. Exchangeable at any time, in whole or in part, at the holder's option, for an equivalent principal amount of Series JG 9.50% bonds due January 12, 2035.
22. Bonds are extendible at the option of the Province on the Initial Maturity Date of August 21, 2003, and on each Extended Maturity Date thereafter to the final maturity date of August 21, 2006. Coupon interest is paid semi-annually at a rate of 5.20% in years 1-2, 5.50% in year 3, 6.00% in year 4 and 6.70% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.63%.
23. The terms of these debentures require that the principal be repaid in 12 equal monthly payments in the year preceding the date of maturity.
24. The terms of these debentures require unequal payments, consisting of both principal and interest, to be made at predetermined irregular intervals. On January 10, 2035, the principal to be repaid on each debenture will be $2.3 million.
25. Bonds are extendible at the option of the Province on the Initial Maturity Date of July 27, 2001 (option exercised), and on each Extended Maturity Date thereafter to the final maturity date of July 27, 2009. Coupon interest is paid semi-annually at a rate of 5.75% in years 1-2, 5.90% in years 3-4, 6.00% in years 5-6, 6.15% in years 7-8, 6.25% in year 9 and 6.50% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.125%.
26. Bonds are extendible at the option of the Province on the Initial Maturity Date of September 5, 2003, and on each Extended Maturity Date thereafter to the final maturity date of September 5, 2006. Coupon interest is paid semi-annually at a rate of 5.00% in years 1-2, 5.25% in year 3, 5.75% in year 4 and 6.40% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.39%.
27. The Province entered into currency exchange agreements that effectively converted these Euro obligations to Canadian dollar obligations at an exchange rate of 1.75148. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.65% on $3,912 million and floating Canadian BA rate minus 0.055% on $45 million.
28. The interest rate was set at 4.75% for the first year. The interest payable is 6.00% in the second year, 6.25% in the third year, 6.50% in the fourth year and 6.75% in the final year.
29. The 1995 series of Ontario Savings Bonds matured on March 1, 2000, the 1997 fixed series bonds matured on June 21, 2000, the 1996 Series bonds and the 1998 fixed series bonds matured on June 21, 2001, and the 1999 fixed series bonds matured on June 21, 2002. The outstanding amounts represent bonds not yet presented for redemption.
30. In every year for the period 1997-2002, the Province issued fixed rate OSBs each with terms of three years. Interest rates were set for the term of the bonds. The rate on the 1997 and 1998 Series bonds was set at 5.25%. The rate on the 1999 and 2001 Series bonds was 5.50%. The rate on the 2000 Series bonds was 6.50%, and the rate on the 2002 Series was 4.625%.
31. During the 2002-03 fiscal year, Series EMTN51 was reopened once, bringing the total issue to $350 million.
32. Callable in full, and not in part, on September 4, 2003, at par. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.06%.
33. Proceeds of issue and repayment are in Japanese yen. Interest is payable in Australian dollars, based on a notional principal of AUD 27.2 million at a rate of 6.00%.
34. The bonds are extendible at the option of the bondholder on or before November 10, 2004. Coupon interest is paid at 6.40% for the first five years. If extended to the final maturity date of December 2, 2014, the coupon will step up to 6.80%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate.
35. Interest payable is six-month U.S. LIBOR plus 0.0475%.
36. Bonds are extendible at the option of the Province on the Initial Maturity Date of September 11, 2003, and on each Extended Maturity Date thereafter to the final maturity date of September 11, 2006. Coupon interest is paid semi-annually at a rate of 4.75% in years 1-2, 5.10% in year 3, 5.55% in year 4 and 6.40% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.07%.

37. Retractable in whole or in part on March 15, 2005, at the holder's option provided that irrevocable notice of retraction is made on March 1, 2005. Coupon interest is paid at 5.50% for the first four years and 6.80% for the remaining six years on outstanding bonds.
38. The original debentures payable to OMERS were replaced effective December 31, 1995, with debentures payable to OMERS and to Colleges of Applied Arts and Technology Pension Plan, in the amounts of $741.6 million and $90.9 million, respectively. The terms and conditions remain the same as those of the original debentures.
39. Agricorp, a Government Organization, holds $15 million in Series LE, $10 million in Series JV and $6.2 million in Series KE.
40. No interest is payable in the first five years, thereafter interest is payable monthly at an annual interest rate of 17.25%.
41. The terms of these debentures require unequal payments, consisting of both principal and interest, to be made at predetermined irregular intervals with the final payment on January 10, 2045. The total principal and interest to be paid over the life of the debenture is $1,325 million in total.
42. Bonds are extendible at the Option of the Province on the Initial Maturity Date of August 27, 2003, and on each Extended Maturity Date thereafter to the final maturity date of August 27, 2007. Coupon interest is paid semi-annually at a rate of 5.10% in years 1-2, 5.60% in year 3, 5.80% in year 4, 6.00% in year 5 and 7.00% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest on this debt to a fixed rate of 4.52%.
43. The Province entered into currency exchange agreements that effectively converted these U.S. dollar obligations to Canadian dollar obligations at an exchange rate of 1.4768. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.24% on $12,649 million and floating Canadian BA rate on $763 million.
44. Bonds are callable on May 13, 2003 at the option of the Province. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.05%.
45. The Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.02%.
46. Interest is payable at floating Canadian BA rate plus 0.85% paid quarterly for the first two years, then 5.75% semi-annually if not called. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.07%.
47. Proceeds of issue and repayment are in Japanese yen. Interest is payable in Australian dollars based on a notional principal of AUD 103.2 million at a rate of 3.2% payable annually. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.86%.
48. The interest rate was set at 5.75% for the first year. The minimum interest payable is 6.25% in the second year, 6.50% in the third year, 6.75% in the fourth year and 7.00% in the final year.
49. During the 2002-03 fiscal year, the Province repurchased for cancellation $94.29 million of Series MV bonds.
50. The Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.63%.
51. This issue has been on-lent to OEFC until June 2, 2010, after which the issue will be assumed by the Province until the maturity date.
52. Bonds are extendible at the option of the Province on the Initial Maturity Date of September 17, 2003, and on each Extended Maturity Date thereafter to the final maturity date of September 17, 2008. Coupon interest is paid annually at a rate of 4.75% in years 1-2, 5.25% in year 3, 6.20% in year 4, 6.25% in year 5, 6.50% in year 6 and 6.75% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.79%.
53. During the 2002-03 fiscal year, the Province repurchased for cancellation $95.282 million of Series HC bonds.
54. Proceeds of issue and repayment are in Japanese yen. Interest is payable in Australian dollars, based on a notional principal of AUD 52.5 million at a rate of 3.10%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.051%.
55. Proceeds of issue and repayment are in Japanese yen. Interest is payable in U.S. dollars, based on a notional principal of USD 120.8 million at a rate of 3.25%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.051%.
56. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 6.00%. Effective December 21, 2002, the interest rate was set at 2.50%.
57. Proceeds of issue and repayment are in Japanese yen. Interest is payable in Australian dollars, based on a notional principal of AUD 121.1 million at a rate of 4.28%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 7.38%.
58. During the 2002-03 fiscal year, Series EMTN50 was reopened twice, bringing the total issue to $450 million.

59. Bonds are extendible at the option of the Province on the Initial Maturity Date of May 30, 2003, and on each Extended Maturity Date thereafter to the final maturity date of May 30, 2010. Coupon interest is paid semi-annually at a rate of 5.50% in year 1, 5.75% in year 2, 6.00% in year 3, 6.25% in year 4, 6.50% in year 5, 6.75% in year 6, 7.00% in year 7, 7.50% in year 8 and 8.00% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 5.04%.
60. During the 2002-03 fiscal year, Series DMTN8 was reopened once, bringing the total issue size to $1,500 million (including $500 million for OEFC purposes).
61. The Province entered into currency exchange agreements that effectively converted these Norwegian kroner obligations to Canadian dollar obligations at an exchange rate of 0.21235. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating Canadian BA rate minus 0.028%.
62. Current outstanding OSBs are redeemable at the option of the holder on June 21 and December 21 with the exception of fixed rate bonds, which are redeemable at maturity only. All current outstanding OSBs may be redeemed upon the death of the beneficial owner. The 1999, 2000, 2001 and 2002 series may also be redeemed during the 14 calendar days immediately following June 21 and December 21. The Minister of Finance may reset the interest rate from time to time prior to maturity.
63. The interest rate was set at 4.25% for the first year. The rate is 5.00% in the second year, 5.75% in the third year, 6.25% in the fourth year and 6.75% in the final year.
64. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 4.50%. Effective December 21, 2002, the interest rate was set at 2.50%.
65. Pursuant to the *Ontario Public Service Employees' Pension Act 1994* and the *Asset Transfer Agreement of December 12, 1994*, the Province is obligated to re-split the debentures between the Public Service Pension Fund ("PSPF") and the Ontario Public Service Employees' Union Pension Plan Trust Fund ("OPSEU Fund") based on accurate data when it is available. On June 13, 1997, a *Restated Sponsorship Amendment and Asset Transfer Agreement* was signed, replacing the 1994 agreement. Pursuant to this Agreement on September 17, 1997, the re-split of the debentures was completed. To effect this redistribution of assets, $3,745.8 million of debentures held by PSPF and $1,751.4 million of debentures held by OPSEU were retired and replaced by $3,726.8 million and $1,770.4 million of debentures to be held by PSPF and OPSEU respectively.
66. The interest rate was set at 3.00% for the first year. The interest payable is 5.25% in the second year, 6.00% in the third year, 6.50% in the fourth year, 7.00% in the fifth year, 7.50% in the sixth year and 8.00% in the final year.
67. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 3.25%. Effective December 21, 2002, the interest rate was set at 2.50%.
68. Bonds are extendible at the option of the Province on the Initial Maturity Date of June 28, 2003, and on each Extended Maturity Date thereafter to the final maturity date of June 28, 2010. Coupon interest is paid semi-annually at a rate of 5.70% in years 1-2, 6.00% in years 3-4, 6.25% in year 5, 6.50% in year 6, 7.00% in year 7, 7.50% in year 8 and 8.00% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 4.82%.
69. The Province entered into currency exchange agreements that effectively converted these New Zealand dollar obligations to Canadian dollar obligations at an exchange rate of 0.82770. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.56%.
70. Bonds are extendible at the option of the Province on the Initial Maturity Date of July 30, 2003, and on each Extended Maturity Date thereafter to the final maturity date of July 30, 2010. Coupon interest is paid semi-annually at a rate of 5.50% in year 1, 5.75% in year 2, 6.25% in years 3-4, 6.50% in years 5-6, 7.00% in year 7, 7.25% in year 8 and 7.50% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 4.79%.
71. Bonds are callable at the option of the Province on September 4, 2000, 2003 and 2006 to the final maturity date of September 4, 2009. Coupon interest is paid semi-annually at a rate of 6.00% in years 1-3, 6.125% in years 4-6, 6.35% in years 7-9 and 7.625% in years 10-12. In addition, the Province entered into interest rate agreements that effectively converted the interest obligations on this debt to floating Canadian BA rate minus 0.19%.
72. Bonds are extendible at the option of the Province on the Initial Maturity Date of June 4, 2004, and on each Extended Maturity Date thereafter to the final maturity date of June 4, 2007. Coupon interest is paid semi-annually at a rate of 4.20% in years 1-2, and 6.05% in the remaining three years. In addition, the Province entered into interest rate agreements that converted the interest obligation on this debt to floating Canadian BA rate minus 0.04%.
73. Interest payable is three-month Canadian BA rate minus 0.05%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.23%.
74. During the 2002-03 fiscal year, the Province purchased for cancellation $25.549 million of the KT Series bonds.
75. During the 2002-03 fiscal year, Series KJ bonds were reopened once, bringing the total issue to $4,237.7 million.

76. During the 2002-03 fiscal year, Series HC-MG were reopened twice, bringing the total issue to $3,000 million.
77. During the 2002-03 fiscal year, Series DMTN16 bonds were reopened once, bringing the total issue to $1,500 million.
78. During the 2002-03 fiscal year, Series KE bonds were reopened once, bringing the total issue to $700 million.
79. Proceeds of issue and repayment of principal are in Japanese yen. Interest is payable in U.S. dollars based on a notional principal of USD 86.3 million, at a rate of 3.58% payable annually. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 6.35%.
80. Proceeds of issue and repayment of principal are in Japanese yen. Interest is payable in U.S. dollars semi-annually based on notional principal of USD 57.1 million, at a rate of 2.6%. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.57%.
81. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 5.00%. Effective December 21, 2002, the interest rate was set at 2.50%.
82. During the 2002-03 fiscal year, the Province purchased for cancellation $1.54071 million of the JA Series bonds.
83. Total Debt Issued for Provincial Purposes on a consolidated basis includes the long-term debt of the Ontario Housing Corporation for $2,200 million, the Toronto Area Transit Authority (GO Transit) for $438 million and the Ontario Municipal Improvement Corporation for $79 million.
84. The Treasury Bill balance does not include the following Treasury Bill holdings: $267 million held by the Northern Ontario Heritage Fund Corporation, $120 million held by Ontario Trillium Foundation and $33 million held by Ontario Securities Commission, as these will be eliminated upon consolidation.
85. Bonds are extendible at the option of the Province on the Initial Maturity Date of February 18, 2005, and on each Extended Maturity Date thereafter to the final maturity date of February 18, 2010. Coupon interest is paid semi-annually at a rate of 4.15% in years 1-2, 4.40% in year 3, 4.75% in year 4, 5.50% in year 5, 6.30% in year 6 and 7.15% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.519%.
86. Bonds are callable at the option of the Province on October 15, 2004. Coupon interest is not paid until October 15, 2004, after which coupon interest is paid semi-annually at a rate of 5.50%. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to floating Canadian BA rate.
87. Bonds are callable on April 1, 2003 at the Province of Ontario's option. In addition, the Province entered into interest rate agreements that effectively converted the interest obligations on this debt to floating Canadian BA rate minus 0.09%.
88. Bonds are extendible at the option of the Province on the Initial Maturity Date of December 12, 2003, and on each Extended Maturity Date thereafter to the final maturity date of December 12, 2006. Coupon interest is paid semi-annually at a rate of 4.00% in years 1-2, 4.75% in year 3, 5.90% in year 4 and 7.00% in the final year. In addition, the Province entered into interest rate agreements that effectively locked in a gain of 11 basis points.
89. Bonds are extendible at the option of the Province on the Initial Maturity Date of November 29, 2003, and on each Extended Maturity Date thereafter to the final maturity date of November 29, 2011. Coupon interest is paid semi-annually at a rate of 4.50% in year 1, 4.75% in year 2, 5.00% in year 3, 5.50% in year 4, 6.00% in year 5, 6.25% in year 6, 6.50% in year 7, 6.75% in year 8, 7.00% in year 9 and 7.50% in the final year. In addition, the Province entered into interest rate agreements that effectively locked in a gain of eight basis points
90. The terms of these debentures require that a special one-time interest payment of $31.1 million be made at maturity.
91. U.S. Commercial Paper issues are non-interest bearing with maturities up to 182 days.
92. The interest rate was set at 4.75% for the first year. The minimum interest payable is 5.00% in the second year, 6.00% in the third year, 6.25% in the fourth year and 6.50% in the final year.
93. The Province entered into currency exchange agreements that effectively converted these U.S. dollar obligations to Canadian dollar obligations at an exchange rate of 1.5392. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.51%.
94. Bonds are extendible at the option of the Province on the Initial Maturity Date of November 28, 2003, and on each Extended Maturity Date thereafter to the final maturity date of November 28, 2006. Coupon interest is paid semi-annually at a rate of 3.50% in years 1-2, and 5.25% in the remaining three years. In addition, the Province entered into interest rate agreements that effectively locked in a gain of nine basis points.
95. Bonds are extendible at the option of the Investors on the Initial Maturity Date of November 20, 2002 (option exercised), and on each Extended Maturity Date thereafter to the final maturity date of February 20, 2007. Coupon interest is paid quarterly at a rate of Canadian BA rate minus 0.05% in year 1, BA rate minus 0.01% in year 2, BA rate plus 0.03% in year 3, BA rate plus 0.05% in year 4 and BA rate plus 0.07% for the remaining term.

96. Bonds are extendible at the option of the Province on the Initial Maturity Date of December 18, 2004, and on each Extended Maturity Date thereafter to the final maturity date of December 18, 2009. Coupon interest is paid semi-annually at a rate of 4.0% in years 1-2, 4.20% in year 3, 4.75% in year 4, 5.5% in year 5, 6.0% in year 6 and 6.50% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.320%.
97. Legal Aid, a government organization, holds $9.4 million in Series MG, $4.7 million in Series NL, and $0.36 million in Series DMTN16.
98. This Series is a variable payment, zero coupon bond with a yield of 4.54%.
99. Bonds are extendible at the option of the Province on the Initial Maturity Date of October 22, 2003, and on each Extended Maturity Date thereafter to the final maturity date of October 22, 2008. Coupon interest is paid monthly at a rate of 4.00% in years 1-2, 4.50% in year 3, 5.25% in year 4, 6.10% in year 5, 6.75% in year 6 and 7.50% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.46%.
100. Interest is paid quarterly at three-month Canadian BA rate plus 0.05%.
101. Bonds are extendible at the option of the Province on the Initial Maturity Date of October 5, 2003, and on each Extended Maturity Date thereafter to the final maturity date of October 5, 2011. Coupon interest is paid semi-annually at a rate of 4.70% in year 1, 5.00% in year 2, 5.25% in year 3, 5.50% in year 4, 5.75% in year 5, 6.00% in year 6, 6.25% in year 7, 6.50% in year 8, 7.00% in year 9 and 7.50% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.51%.
102. Interest is paid quarterly at one-month Canadian BA rate plus 0.05%, compounded.
103. Bonds are extendible at the option of the Province on the Initial Maturity Date of October 3, 2003, and on each Extended Maturity Date thereafter to the final maturity date of October 3, 2009. Coupon interest is paid semi-annually at a rate of 4.50% in years 1-2, 5.00% in year 3, 5.50% in year 4, 5.80% in year 5, 6.00% in year 6, 6.50% in year 7 and 7.50% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.50%.
104. Bonds are extendible at the option of the Province on the Initial Maturity Date of September 28, 2003, and on each Extended Maturity Date thereafter to the final maturity date of September 28, 2011. Coupon interest is paid annually at a rate of 5.00% in years 1-2, 5.05% in years 3-4, 5.10% in year 5, 6.35% in year 6, 6.50% in year 7, 6.75% in year 8 and 7.00% in the final two years. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.57%.
105. Interest is paid quarterly at three-month Canadian BA rate plus 0.03%. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on $425 million to a fixed rate of 4.68%.
106. During the 2002-03 fiscal year, the Province repurchased for cancellation $197.125 million of Series MZ bonds.
107. During the 2002-03 fiscal year Series NF was reopened three times, bringing the total issue size to $2,500 million.
108. Bonds are extendible at the option of the Province on the Initial Maturity Date of February 12, 2004, and on each Extended Maturity Date thereafter to the final maturity date of February 12, 2007. Coupon interest is paid semi-annually at a rate of 4.05% in years 1-2, 4.75% in year 3, 6.00% in year 4 and 7.25% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.31%.
109. During the 2002-03 fiscal year, the Province repurchased for cancellation $100 million of Series MU bonds.
110. Bonds are extendible at the option of the Investors on the Initial Maturity Date of December 5, 2002 (option exercised), and on each Extended Maturity Date thereafter to the final maturity date of December 5, 2008. Coupon interest is paid quarterly at a rate of Canadian BA rate minus 0.05% in year 1, Canadian BA rate minus 0.01% in year 2, Canadian BA rate plus 0.03% in year 3, Canadian BA rate plus 0.05% in year 4, Canadian BA rate plus 0.07% in year 5 and Canadian BA rate plus 0.08% in the final two years.
111. Bonds are extendible at the option of the Province on the Initial Maturity Date of June 18, 2004 to the final maturity date of June 18, 2007. Coupon interest is paid semi-annually at a rate of 4.20% in years 1-2, and 6.05% in the final three years, if extended. In addition, the Province entered into interest rate agreements that converted the interest rate obligation on this debt to floating Canadian BA rate minus 0.06%.
112. Bonds are extendible at the option of the Province on the Initial Maturity Date of July 21, 2004, and on each Extended Maturity Date thereafter to the final maturity date of July 21, 2007. Coupon interest is paid semi-annually at a rate of 4.00% in years 1-2, and 6.00% in the final three years, if extended. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.38%.
113. Bonds are extendible at the option of the Province on the Initial Maturity Date of March 1, 2004, and on each Extended Maturity Date thereafter to the final maturity date of March 1, 2007. Coupon interest is paid semi-annually at a rate of 4.10% in years 1-2, 4.50% in year 3, 5.75% in year 4 and 7.25% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest obligation on this debt to floating three-month Canadian BA rate minus 0.08%.
114. Bonds are extendible at the option of the Province on the Initial Maturity Date of March 4, 2004, and on each Extended Maturity Date thereafter to the final maturity date of March 4, 2010. Coupon interest is paid at 4.30% in years 1-2, 4.5% in year 3, 5.10% in year 4, 6.0% in year 5, 6.5% in year 6, 7.0% in year 7 and 7.50% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest obligation on this debt to floating three-month Canadian BA rate minus 0.08%.

115. Interest is paid quarterly at a rate of three-month Canadian BA rate plus 0.275% up to the maximum of 4.775% for the first year, 5.025% for the second year, and 5.775% for the third year. In addition, the Province has entered into interest rate agreements that effectively converted the interest obligation on this debt to floating three-month Canadian BA rate minus 0.01%.
116. The issue is callable on June 1, 2005, at the option of the Province. Interest is paid quarterly at a rate of three-month Canadian BA rate plus 0.59% in years 1-3, and semi-annually at a rate of 5.70% if not called. In the event that the bond is not called, the bond holder has the right to exchange this series for series LZ. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to floating three-month Canadian BA rate minus 0.03%.
117. Bonds are extendible at the option of the Province on the Initial Maturity date of March 18, 2004, and on each Extended Maturity Date thereafter to the final maturity date of March 18, 2009. Coupon interest is paid semi-annually at a rate of 4.5% in years 1-2, 4.75% in year 3, 5.5% in year 4, 6.25% in year 5, 6.5% in year 6 and 7% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating three-month Canadian BA rate minus 0.09%.
118. The amount outstanding in legacy currency is French franc 3,000,000,000. The French franc was converted to Euro using conversion rate of one Euro equals 6.55957 French francs in accordance with Council Regulation (EU) No. 2866/98. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 5.41%.
119. The amount outstanding in legacy currency is Deutsche marks 1,439,150,000. The Deutsche marks were converted to Euro using conversion rate of one Euro equals 1.95583 Deutsche marks in accordance with Council Regulation (EU) No. 2866/98. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 7.684%.
120. The amount outstanding in legacy currency is Netherlands guilders 400,000,000. The Netherlands guilders were converted to Euro using conversion rate of one Euro equals 2.20371 Netherlands guilders in accordance with Council Regulation (EU) No. 2866/98. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 9.859%.
121. The amount outstanding in legacy currency is French franc 3,000,000,000. The French franc was converted to Euro using conversion rate of one Euro equals 6.55957 French francs in accordance with Council Regulation (EU) No. 2866/98. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 6.6%.
122. The Province entered into currency exchange agreements that effectively converted substantially all of these Japanese yen obligations to Canadian dollar obligations at an exchange rate of 0.01248. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 2.78%.
123. Bonds are zero coupon bonds issued at a discount. The terms of these debentures require payment of principal and interest to be made on individual maturity dates ranging from 2004 to 2008. The total principal and interest to be paid over the life of these debentures is $49,508,448.
124. The interest rates were set at 2.50% for the first year, 3.75% for the second year, 4.50% for the third year, 5.00% for the fourth year and 5.50% for the final year.
125. The issue size is USD $750 million (including $268,308,080 on-lent to OEFC).
126. During the 2002-03 fiscal year, Series DMTN10 was reopened twice, bringing the total issue to $290 million.
127. The Minister of Finance will reset the interest rate every six months. The initial interest rate was set at 2.75%. Effective December 21, 2002, the interest rate was set at 2.50%.
128. During the 2002-03 fiscal year, Series DMTN33 was reopened three times, bringing the total issue to $140 million.
129. Interest is payable quarterly at floating three-month Canadian BA rate minus 0.02%. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on $50 million to a fixed rate of 3.89%.
130. The Province entered into interest rate agreements that effectively converted the interest obligation on this debt to floating three-month Canadian BA rate.
131. Bonds are extendible at the option of the Province on the Initial Maturity Date of May 3, 2004, and on each Extended Maturity Date thereafter to the final maturity date of May 3, 2007. Coupon interest is paid monthly at a rate of 4.70% in years 1-2, 5.15% in year 3, 6.05% in year 4 and 6.90% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 4.0775%.
132. Bonds are extendible at the option of the Province on the Initial Maturity Date of April 3, 2004, and on each Extended Maturity Date thereafter to the final maturity date of April 3, 2009. Coupon interest is paid semi-annually at a rate of 4.80% in years 1-2, 5.625% in year 3, 6.50% in year 4, 6.875% in year 5, 7.25% in year 6 and 7.75% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 4.301%.
133. Bonds are extendible at the option of the Province on the Initial Maturity Date of May 6, 2004, and on each Extended Maturity Date thereafter to the final maturity date of May 6, 2009. Coupon interest is paid monthly at a rate of 4.62% in years 1-2, 5.00% in year 3, 6.00% in year 4, 6.50% in year 5, 7.00% in year 6 and 7.25% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.969%.

134. Bonds are extendible at the option of the Province on the Initial Maturity Date of November 15, 2004 and on each Extended Maturity Date thereafter to the final maturity date of November 15, 2007. Coupon interest is paid semi-annually at a rate of 4.50% in years 1-2 and 5.80% in years 3-5, if extended. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 4.532%.
135. The Province has the right to call Series LY on September 4, 2008.
136. Bonds are extendible at the option of the Province on the Initial Maturity Date of July 15, 2004, and on each Extended Maturity Date thereafter to the final maturity date of July 15, 2007. Coupon interest is paid semi-annually at a rate of 4.30% in years 1-2, 5.00% in year 3, 5.75% in year 4 and 6.70% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.624%.
137. Bonds are extendible at the option of the Province on the Initial Maturity Date of July 23, 2004, and on each Extended Maturity Date thereafter to the final maturity date of July 23, 2009. Coupon interest is paid semi-annually at a rate of 4.30% in years 1-2, 5.10% in year 3, 5.80% in year 4, 6.30% in year 5, 6.50% in year 6, and 7.75% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.45%.
138. Bonds are extendible at the option of the Province on the Initial Maturity Date of September 10, 2004, and on each Extended Maturity Date thereafter to the final maturity date of September 10, 2009. Coupon interest is paid semi-annually at a rate of 4.00% in years 1-2, 4.50% in year 3, 5.25% in year 4, 6.00% in year 5, 6.50% in year 6 and 7.25% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.5173%.
139. Bonds are extendible at the option of the Province on the Initial Maturity Date of January 31, 2005, and on each Extended Maturity Date thereafter to the final maturity date of January 31, 2011. Coupon interest is paid semi-annually at a rate of 4.25% in years 1-2, 4.35% in year 3, 4.45% in year 4, 5.25% in year 5, 5.35% in year 6, 5.75% in year 7 and 6.25% in the final year. In addition, the Province has entered into interest rate agreements that effectively converted the interest rate obligation on this debt to a fixed rate of 3.534%.
140. Bonds are extendible at the option of the Province on the Initial Maturity Date of March 3, 2005, and on each Extended Maturity Date thereafter to the final maturity date of March 3, 2009. Coupon interest is paid semi-annually at a rate of 4.05% in years 1-2, 4.40% in year 3, 4.85% in year 4, 5.85% in year 5 and 6.875% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt into floating three-month Canadian BA rate minus 0.07%.
141. Bonds are extendible at the option of the Province on the Initial Maturity Date of March 17, 2005, and on each Extended Maturity Date thereafter to the final maturity date of March 17, 2009. Coupon interest is paid semi-annually at a rate of 4.0% in years 1-2, 4.10% in year 3, 5.0% in year 4 and 6.0% in the final year. In addition, the Province entered into interest rate agreements that effectively converted the interest rate obligation on this debt into floating three-month Canadian BA rate minus 0.07%.
142. The Province entered into currency exchange agreements that effectively converted these Australian dollar obligations to Canadian dollar obligations at an exchange rate of 0.89714. In addition, the Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.5252%.
143. The Province entered into interest rate agreements that effectively converted the interest obligation on this debt to a fixed rate of 4.8831%.

Paper E

Creating Jobs and Prosperity Through Strategic Long-Term Tax Reductions

Introduction

In 1995, the Ontario economy was clearly showing the effects of a decade of excessive tax and spending increases.

- In the first half of the 1990s, Ontario suffered its worst economic decline since the Great Depression of the 1930s. In 1994, Ontario's real gross domestic product (GDP) per capita was still about five per cent below its level of five years earlier.
- Relative to both the United States and the rest of Canada, Ontario's real GDP per capita had fallen about 10 percentage points—demonstrating that tax increases and high deficits, not just the global economy, were hurting Ontario.
- Unemployment was high—jobs were being lost to other provinces and the United States.
- Public spending and Provincial debt were out of control. Ontario was facing a potential deficit of $11.3 billion and Provincial debt was growing by $1 million every hour.
- A decade of tax increases was driving investment and job creation to lower-tax jurisdictions.

Since then, a plan to improve fundamentals, highlighted by significant reductions in tax rates, has resulted in stronger economic growth than any of the major industrialized countries, more than a million new jobs and rising living standards. In 2003-04 the government's tax cuts already in place, together with those proposed in this budget, would allow individual and business taxpayers in Ontario to retain over $16 billion of their money.

Ontario Tax Environment in 1995

In 1995, Ontario taxpayers faced some of the highest tax rates in North America. A succession of personal income tax rate increases between 1985 and 1995 had pushed up income taxes significantly for people with lower and middle incomes. Ontario's top tax rate was the second highest in Canada—only British Columbia had a higher top personal income tax rate. Ontario's personal income tax rates were also badly out of line with those of our U.S. competitors.

Ontario's property tax system was in disarray. Properties were assessed infrequently and different methodologies were used, which resulted in a patchwork of out-of-date and unexplainable assessed values. Tax rates applied to those values varied significantly among municipalities.

Education tax rates levied by school boards had jumped by over 60 per cent between 1985 and 1995. During that period, school board tax revenues increased by over 120 per cent, while enrolment increased by only 16 per cent.

Businesses also faced unacceptably high tax rates in 1995. Ontario's tax rate on small businesses—the businesses that create many of the jobs in the economy—was the second highest in Canada at the time. The Employer Health Tax, introduced in 1991, was directly impacting the job creation potential of small business.

Ontario's Tax Cut Record

It was clear that significant changes were needed to address an economy that was in the doldrums and taxes that had reached unacceptably high levels. The government embarked on a bold plan to create jobs by leaving more of people's income in their pockets and the profits of small businesses in the business.

Personal Income Tax Cuts Benefit All Taxpayers

In 1995, the government committed to cut Ontario's personal income tax rate by 30 per cent. By 1998, that commitment had been fulfilled—a year ahead of schedule. In 1999, a new commitment was made to provide Ontarians with an additional $4 billion in benefits by reducing Ontario personal income tax by a further 20 per cent, starting with a five per cent rate cut in 1999.

Until then, Ontario personal income tax was calculated as a percentage of federal tax. This meant that when the federal government increased its tax rates, Ontario's effective tax rates automatically went up too. And Ontario was unable to prevent the hidden tax increases that resulted from the federal government's failure to fully index the income tax system.

In 2000, the Province moved to a "Made-for-Ontario" income tax system, in which provincial income tax is calculated on taxable income, and not on federal tax. Ontario has the authority to set its own tax brackets and rates independently of federal tax brackets and rates, and to provide its own tax credits to recognize the impact of special circumstances on people's ability to pay income tax. The Ontario government has used its new policy flexibility to:

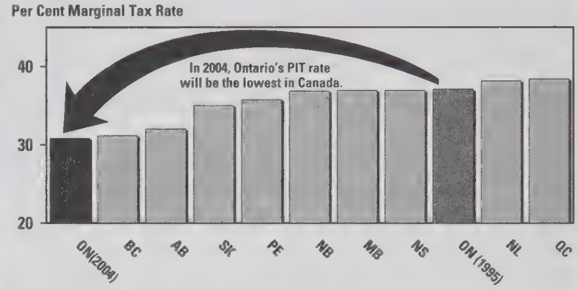
- cut Ontario's first and second tax rates further, providing benefits to all taxpayers;
- index the income tax system to Ontario's inflation rate to protect against hidden tax increases;
- increase tax credits for students, people with disabilities and family members who support them;
- reduce the amount of capital gains included in income from 75 to 50 per cent; and
- take steps to increase the level of income at which Ontario's surtax becomes payable.

Taken together, the personal income tax cuts brought in by the government since 1995 mean that:

- six million Ontarians have had their Ontario personal income tax reduced or eliminated;
- all taxpayers benefit from reduced personal income taxes, with the largest percentage cuts concentrated on individuals with the lowest incomes;
- a typical family of four with net income of $60,000 from two earners will save $2,125 in taxes this year; and
- Ontario's personal income tax rates are lower for most Ontario taxpayers than in other provinces, and the income tax burden on people is much more in line with our American competitors'.

Interprovincial Comparison

Combined Federal-Provincial PIT Rates, 2004
For Individuals Earning $50,000



Note: Rates are combined federal-provincial personal income tax rates. Reflects 2003 Federal Budget and Provincial Budgets, through February 2003.
Source: Ontario Ministry of Finance.

Significant Reductions in Ontario's Personal Income Tax Rates

	1995 Tax Year		
Taxable income brackets	$29,590		$59,180
Ontario tax rates before Ontario 1996 Budget (equivalent to Ontario "tax on tax" rate of 58%)	9.86%	15.08%	16.82%
	2004 Tax Year		
Taxable income brackets (with estimated indexation)	$33,473		$66,946
Ontario tax rates for 2004	5.65%	8.85%	11.16%

Note: Does not include Ontario surtax.

Next year, when Ontario's first and second tax rates are cut further and the surtax threshold is raised, individual taxpayers will benefit from almost $900 million more in income tax savings.

To the government, tax revenues are Ontarians' hard-earned money, entrusted to the Province to be spent efficiently on the programs and services that Ontarians value.

In 1999, the economy performed better than expected and produced more revenue than was needed for the government to achieve the plan that had been set out. As a result, individuals who paid income tax to Ontario in 1999 and contributed to the province's financial success that year became eligible for a "dividend" of up to $200 each. Altogether, $1 billion was returned to five million Ontario taxpayers through this program.

HOMEOWNERS HAVE BENEFITED FROM PROPERTY TAX REFORMS

Beginning in 1998, the Province began a comprehensive reform of the property tax system. The introduction of current value assessment (CVA) in 1998 brought fairness and transparency to the property tax system by assessing properties across the province based on current market values.

Based on several recent studies and the experience of other jurisdictions, the government believes that CVA is the most appropriate basis upon which to value property for taxation purposes. By applying CVA, Ontario is remaining consistent and competitive with most other jurisdictions in North America.

CVA is more equitable, more understandable and more accountable than the former system where assessments in many communities were as much as 50 years out of date. The province-wide application of CVA ensures that similar properties of similar value pay similar taxes in each community. By basing assessments on the amount that properties would sell for at a fixed point in time, property owners can understand their assessments and compare them with other properties.

For the 2003 taxation year, the assessment of properties is based on the amount of money a property would sell for as of the common valuation date of June 30, 2001. The 2003 reassessment marks the beginning of annual province-wide reassessments. Beginning in 2004, annual reassessments will base property values on market conditions as of June 30 of the preceding tax year. We believe it is essential that all properties be assessed on a consistent basis at a fixed point in time and that values be updated on a regular basis. Property values can change over time at different rates, and frequent updates ensure that fairness is maintained.

Municipalities were given the flexibility to gradually implement the tax changes that occur in a reassessment over a period of up to eight years. Many homeowners have benefited from municipalities' use of this option. In addition, a variety of tax relief programs have enabled municipalities to provide assistance to charities, non-profit organizations, heritage property owners, seniors and residents experiencing situations of hardship.

Residential education property tax burdens have been reduced substantially. In 1998, the Province assumed responsibility for determining education funding and setting education property tax rates. In that year, the Province cut residential education property taxes in half and transferred $2.5 billion in tax room to municipalities in the context of a broader reform of provincial and municipal funding responsibilities. A new uniform education property tax rate for all residential and multi-residential properties was established.

In 1999, the government made a commitment to reduce residential education property taxes by 20 per cent. An immediate 10 per cent rate cut was implemented for the 1999 tax year, resulting in $250 million in annual property tax reductions for residential property owners. However, not all homeowners received the benefit of this tax reduction because some municipalities increased the municipal portion of the property tax, which offset the intended education tax savings. Therefore, the government has proposed that the second half of this tax cut be delivered directly to taxpayers by the Province.

Supporting Ontario's Seniors

More than 1.5 million of Ontario's 12 million residents are aged 65 or older. Ontario's senior citizens have helped to create a prosperous and proud province. Their ongoing contributions continue to support Ontario's success and prosperity. As a group, however, senior citizens have lower average incomes than the population as a whole and many rely on fixed incomes.

Ontario's personal income tax system already provides significant recognition for these differences through a variety of tax credits. Ontario's age credit, for example, will deliver over $200 million in tax savings this year to low- and moderate-income seniors. Ontario property and sales tax credits provide enriched benefits for seniors that deliver an additional $300 million a year in income tax–based support to seniors and their families. As a group, seniors are also saving $1.6 billion this year as a result of Ontario's tax cuts to date.

To complete the government's commitment to reduce residential education taxes, this budget proposes to provide senior homeowners and renters with a tax credit that reimburses them for the full amount of the residential education property taxes they pay.

This property tax support will assist all seniors with their housing costs. This assistance will be of particular help to those seniors on fixed incomes, who do not have the opportunity to increase their incomes to keep pace with rising costs.

Seniors would have their residential education property tax on their principal residence fully eliminated through a new Ontario Home Property Tax Relief for Seniors program in respect of property taxes after July 1, 2003. The new application-based credit would be made available to both senior homeowners and senior tenants.

Ontario's 700,000 senior homeowners and 245,000 senior tenants would receive $450 million in net new benefits a year.

Recognizing the Value of Caregiving

Many individuals who live with disabilities or infirmities receive the support and care they need to remain in their homes from family members. These individuals must cope with higher costs than does the general population.

Ontario's tax system currently provides assistance to over 150,000 individuals with disabilities or infirmities and relatives who care for them through a number of non-refundable tax credits, including the disability credit, caregiver credit and infirm dependant credit. However, the care provided by individuals for an infirm spouse or common-law partner goes unrecognized by the current income tax system, as do the efforts of adult children to help their infirm parents or grandparents with modest incomes remain in their own homes.

To close these gaps and provide greater recognition of the impact these circumstances have on an individual's ability to pay income tax, this budget proposes three enhancements to Ontario's current tax support for caring and disabilities.

First, the amounts on which these tax credits are based would be increased to $6,637.

Second, this budget proposes to expand the caregiver credit and the infirm dependant credit to include spouses or common-law partners who are dependent by reason of mental or physical infirmity and to provide support to more caregivers living apart from dependent relatives.

Third, the dependant's income level at which the caregiver credit and infirm dependant credit are reduced would be raised to $13,050, and both credits would be eliminated when the dependant's income reaches $19,687.

In addition, this government proposes to work with the federal government and representatives of caregivers and the disability community to simplify the existing array of personal income tax supports for these individuals and to provide overall enriched benefits, through the income tax system, for individuals with disabilities and their caregivers.

Supporting Low-Income Working Families

Since June 1995, Ontario's tax and transfer system has been changed to support low- and moderate-income working families and to ensure that people are better off working than receiving social assistance.

The greatest percentage cut made to Ontario's statutory tax rates has been in the rate that applies to modest incomes. In 1995, Ontario's first tax rate stood at 9.86 per cent; when Ontario's tax cuts are complete in January 2004, our first tax rate will be 5.65 per cent. This 43 per cent reduction in the rate will give Ontarians with modest incomes the lowest income tax rate in Canada.

At the same time, the Ontario Tax Reduction (OTR) program has been enriched. This program reduces or eliminates income tax for Ontarians with lower incomes. For 2004, this budget proposes to further improve the OTR by increasing the basic personal claim to $197, plus indexation. Altogether, including the enrichment proposed in this budget and rate cuts that will come into effect on January 1, 2004, this government's tax cuts would eliminate Ontario income tax for 695,000 modest-income taxpayers. As well, 825,000 Ontarians would pay no provincial income tax, yet would continue to pay income tax to the federal government.

To complement the income tax cuts, the government also introduced the Ontario Child Care Supplement (OCCS) for Working Families. The OCCS increases the incentive to work by improving the returns from working.

The OCCS was launched as a result of the National Child Benefit (NCB) agreement between the federal government and the provinces. The NCB was designed to ensure that families leaving social assistance are better off as a result of working. Under the NCB agreement, provinces have the option of reducing social assistance payments by the amount of the federal NCB Supplement if they reinvest these funds in programs for low-income families with children. Ontario's principal reinvestment is the OCCS.

To ensure that the OCCS continues to improve the returns from working relative to welfare, this budget proposes to increase the net income level above which OCCS benefits are reduced from $20,000 to $20,750.

Support for Low- to Moderate-Income Working Families

The OCCS is a $1,100 annual tax-free benefit for low- to moderate-income working families with children under age seven. The program also supports parents who are attending school or are receiving training by providing benefits to families with qualifying child care expenses for children under age seven. As well, an annual supplement of $210 per child under age seven is provided to working single parents to recognize their special circumstances. The OCCS was launched in 1998.

This budget proposes to increase the net income threshold at which OCCS benefits begin to be reduced from $20,000 to $20,750. In total, the OCCS will provide over $200 million in benefits annually for up to 373,000 children in 227,000 families.

In June 1995, the structure of Ontario's welfare benefits provided little incentive for low-income families to work. Welfare benefits were higher than the income that many families with children could earn working full-time at a minimum wage job. A single parent with two children, aged four and six, working full-time at $6.85 per hour, the minimum wage, would have had total after-tax income of $16,199 annually, including the federal Child Tax Benefit and Working Income Supplement. This parent would have had to earn $8.40 an hour to have before tax income equal to a similar family on welfare.

Since June 1995, the tax and transfer system has been restructured. The changes increase the return from working and provide an incentive for parents to enter the labour force or work more hours. In 2003, this same single parent working full time at the minimum wage would have an annual after-tax income of $21,558, including $2,620 in OCCS benefits and the Canada Child Tax Benefit. This income is substantially higher than if this family were receiving welfare.

BIG TAX SAVINGS FOR ONTARIO FAMILIES

The results of Ontario's broadly based personal income tax and property tax cuts are clear: significant tax savings for all Ontario taxpayers.

The following examples show the impact of Ontario's tax cuts on individuals and families for a variety of incomes and circumstances.

Examples of Annual Savings from Ontario's Tax Cuts for People ($)

Family Description	Net Income	Tax Cut or Benefit	Saving[1]
Single senior with OAS, CPP and a private pension, paying $500 in monthly rent	20,000	Personal income tax cuts	520
		Residential education property tax cuts	152
			672
One-earner couple with two children under age seven and a home assessed at $150,000	30,000	Personal income tax cuts	1,620
		Residential education property tax cut	56
		Ontario Child Care Supplement	1,460
			3,136
Single parent with two children under age seven and a home assessed at $160,000	40,000	Personal income tax cuts	1,890
		Residential education property tax cut	60
		Ontario Child Care Supplement	1,080
			3,030
Senior couple, one disabled, with income from OAS, CPP and a private pension, living in a home assessed at $170,000	50,000	Personal income tax cuts	2,250
		Residential education property tax cuts	633
			2,883
Two-earner couple with two children over age six and a home assessed at $180,000	60,000	Personal income tax cuts	2,575
		Residential education property tax cut	67
			2,642
One-earner couple with one severely disabled child and a home assessed at $200,000	70,000	Personal income tax cuts	3,955
		Residential education property tax cut	74
			4,029
Single individual with a home assessed at $220,000	80,000	Personal income tax cuts	5,210
		Residential education property tax cut	82
			5,292
One earner and one investor with dividend income and capital gains, living in a home assessed at $240,000	90,000	Personal income tax cuts	5,220
		Residential education property tax cut	89
			5,309

1. Based on tax cuts and benefits since 1995, tax cuts scheduled to take effect in 2004 and measures proposed in the budget, when fully implemented. Residential education property tax cuts include the net benefit under the proposed Ontario Home Property Tax Relief for Seniors.

Significant Tax Cuts for Small Business

Ontario's small and medium-sized businesses create over half of the private-sector jobs in the province. With an environment that supports investment, job creation and entrepreneurship, many small businesses can grow into successful large businesses. The Province recognizes the important contribution that small businesses make to the economy and has provided substantial tax cuts to enable them to reinvest the savings, to expand and to create more jobs.

The government's policies are working—since September 1995, the Ontario economy has created more than a million new jobs.

Ontario's personal income tax cuts have supported many of the Province's small businesses. Unincorporated businesses report their business income on their personal income tax returns. By reducing income tax rates for individuals, Ontario has also reduced the taxes on unincorporated small business owners. Those tax cuts provide small business owners with more money to invest in the growth of the business and to hire more people.

In 1998, Ontario announced a plan to reduce the corporate income tax rate for small business. Since then, the tax rate for incorporated small business has been cut from 9.5 to 5.5 per cent. On January 1, 2004, the rate will fall to five per cent and on January 1, 2005, the small business rate will fall to four per cent—an overall rate reduction of about 58 per cent.

In addition, the income eligibility threshold for Ontario's small business rate is being increased to $400,000 by 2005—twice the original level. By increasing the income level that is eligible for the small business rate, Ontario extended the benefits of the lower rate to more small businesses and reduced a tax barrier to growing small businesses.

The federal government announced in the 2003 Budget that the amount of active business income eligible for the small business rate would be increased from $200,000 to $300,000 by 2006. That would still be $100,000 short of the level of income eligible for the Ontario small business rate. If the federal government matched Ontario's $400,000 income eligibility threshold, small businesses in Ontario with $400,000 of taxable income would each save $9,000 annually in federal corporate income tax.

Small Business Corporate Income Tax Rate Cut Plan

	1995	January 1, 2001	October 1, 2001	January 1, 2003	January 1, 2004	January 1, 2005
Tax Rate	9.5%	6.5%	6%	5.5%	5%	4%
Income Level	$200,000	$240,000	$280,000	$320,000	$360,000	$400,000

More than 100,000 small businesses have been helped by Ontario's tax cuts and are continuing to grow and create jobs.

In 2005, when the small business rate cuts are fully implemented, Ontario will have one of the lowest small business corporate income tax rates among all the provinces; only Alberta and New Brunswick will be lower.

Supporting Small Businesses

- Small business corporate income tax rate cut from 9.5 to 5.5 per cent and will be further cut to 4 per cent by 2005.
- Income level at which the small business rate applies was increased from $200,000 to $320,000 and will be increased to $400,000 by 2005.
- Taxable portion of capital gains reduced from 75 to 50 per cent.
- Employer Health Tax eliminated on the first $400,000 of private-sector payrolls and on self-employment income.
- Overtaxed business properties are protected from further municipal tax increases.
- Business education property taxes reduced by more than $500 million by 2005.
- Capital tax eliminated for businesses with up to $5 million in taxable capital.

Small businesses were also particularly hard hit by taxes, such as payroll, property and capital tax that must be paid regardless of a firm's profitability. The government has introduced a number of measures since 1995 to reduce the burden of these profit-insensitive taxes.

All private-sector employers have benefited from changes made to the Employer Health Tax (EHT). In 1995, both large and small businesses paid EHT, which discouraged job creation. This tax also applied to self-employed individuals reporting more than $40,000 of earnings from self-employment. Between 1996 and 1999, a $400,000 exemption was put in place that had the effect of eliminating the EHT for 88 per cent of private-sector businesses. During that same period, the EHT on self-employed earnings was eliminated.

Ontario businesses are benefiting from the province's property tax reforms. The introduction of a consistent approach to the assessment of property has brought fairness and transparency to the basis for property taxation. A five per cent limit on annual tax increases related to reassessment means that tax changes are manageable for all business taxpayers. In municipalities where business properties face very high tax burdens relative to residential properties, municipalities cannot increase business property taxes until a fairer distribution of tax burdens between residential and business properties is achieved.

Most significantly, businesses across Ontario are benefiting from a Provincial commitment to reduce business education taxes by over $500 million by 2005. Since 1998, the Province's approach to setting business education tax rates has reduced property taxes for business by over $400 million annually and has focused these reductions on businesses facing the highest tax rates. Further reductions in 2004 and 2005 will complete the implementation of the Province's business education tax cuts.

To encourage municipalities to cut their own taxes, the Province maintains a policy of providing accelerated business education tax cuts to match municipal tax reductions for commercial and industrial properties. Since 1998, the Province has matched municipal property tax cuts with business education tax cuts in 10 municipalities.

In 1995, small businesses were liable for paying Ontario capital tax if either their assets or revenues were greater than $1 million. Between 1999 and 2001, the government simplified and enriched the capital tax exemption for small business and took the first step to eliminating the capital tax by increasing the capital tax exemption to $5 million of taxable capital. The result is that 70,000 small businesses in the province no longer pay the capital tax.

This budget proposes to cut Ontario capital tax rates by 10 per cent effective January 1, 2004. The government would eliminate the capital tax at the same time as the federal capital tax is eliminated.

Strategic Tax Reductions to Stimulate Job Creation

In addition to general broad-based cuts to personal income tax, property tax and corporate taxes for small business, the government also introduced strategic tax reductions designed to stimulate jobs and help key sectors grow.

Hiring and Training

To encourage businesses to provide work opportunities to post-secondary graduates, the Graduate Transitions Tax Credit provides a refundable tax credit of 10 per cent (15 per cent for small businesses) for businesses hiring recent post-secondary graduates who have been unemployed for at least 16 of the past 32 weeks.

To support the efforts of businesses to hire workers with a disability, the Workplace Accessibility Tax Incentive provides an additional 100 per cent deduction to corporations (15 per cent refundable tax credit for unincorporated businesses) for expenses related to accommodating newly hired employees with a disability.

Ontario Tax Incentives to Support Hiring and Training

- Co-operative Education Tax Credit for Co-op and Post-Secondary Technology Students;
- Proposed New Apprenticeship Tax Credit;
- Graduate Transitions Tax Credit; and
- Workplace Accessibility Tax Incentive.

To foster skills training and youth employment, the Co-operative Education Tax Credit (CETC) was introduced to provide a refundable tax credit of 10 per cent (15 per cent for small businesses) for businesses hiring a co-op student. As well as supporting skills training and youth employment, this credit recognized that workers skilled in leading-edge technologies are key to the continuing growth of Ontario's economy and maintaining and increasing the supply of well-paid jobs for Ontarians.

The government is proposing to introduce a new Apprenticeship Tax Credit built on the CETC to encourage Ontario businesses to hire and train skilled-trades workers in strategic sectors of the economy such as manufacturing and construction.

Research and Development (R&D) and Innovation

Ontario's tax system provides significant support for the continued activities of R&D and innovation. Ontario's corporate tax incentives for R&D performers include:

- a tax exemption on the federal Scientific Research and Experimental Development (SR&ED) investment tax credit;
- a 20 per cent refundable tax credit for R&D performed at eligible research institutes in Ontario;
- a 10 per cent refundable Ontario Innovation Tax Credit for eligible small and medium-sized companies performing R&D; and
- a 100 per cent deduction for the cost of intellectual property, such as patents and licences.

Ontario Tax Support for R&D and Innovation

- Innovation Tax Credit;
- Interactive Digital Media Tax Credit;
- Non-Taxation of Federal SR&ED Tax Credit;
- Business-Research Institute Tax Incentive;
- New Technology Tax Incentive;
- Royalty Payments Exempt from Five Per Cent Income Add-Back;
- Research Employee Stock Option Credit;
- Retail Sales Tax Exemption for Medical Research and Investigation Equipment; and
- Broader Retail Sales Tax Exemption for R&D Equipment for Manufacturers.

Improved Access to Capital

Refinements to the Labour-Sponsored Investment Fund (LSIF) program have helped to ensure that small, growth-oriented Ontario businesses have better access to capital. This budget proposes amendments to the LSIF program that would further facilitate LSIF investments in companies that have been unable to raise venture capital.

Entrepreneurs need access to venture capital if they are to continue to produce the new jobs that have done so much for Ontario's economy. Ontario also intends to parallel the 2003 federal budget announcement regarding small business rollovers. This program encourages investors to reinvest in small businesses by deferring, in certain circumstances, tax owing on capital gains earned from the disposition of shares in qualifying small businesses.

Ontario Tax Incentives to Improve Access to Capital

- Changes to Labour-Sponsored Investment Fund program have resulted in more capital being delivered to smaller firms sooner.
- Community Small Business Investment Funds and Research-Oriented Investment Funds have targeted venture capital to high growth-potential firms.
- Further changes are proposed to the Community Small Business Investment Fund (CSBIF) program to increase the pool of venture capital available to commercialize university and hospital research.

The creation of the CSBIF and Research-Oriented Investment Fund programs has improved the flow of venture capital into strategic sectors of our economy. Access to venture capital is a crucial part of commercializing the results of research in Ontario's universities and hospitals, and the CSBIF program has become an important source of capital for these institutions.

The government proposes to extend the registration deadline for new CSBIFs by another year, until December 31, 2004. In addition, this budget proposes enhancements to the program to encourage individuals and corporations to invest in the commercialization of research through CSBIFs.

Cultural Industries

The film and television industry is important to Ontario's economy, generating over $2 billion in production activity in 2002. In recognition of the highly mobile nature of film production and the valuable jobs that it creates, the government introduced targeted tax incentives to support investment and job creation in the industry with tax incentives such as:

- a 20 per cent refundable Ontario Film and Television Tax Credit (OFTTC) on labour expenditures for domestic film and television productions;
- an 11 per cent refundable Ontario Production Services Tax Credit on labour expenditures for foreign and non-certified domestic film and television productions; and
- a 20 per cent refundable Ontario Computer Animation and Special Effects Tax Credit on labour expenditures for digital animation and special effects in film and television productions.

Ontario Tax Incentives to Support Cultural Industries

- Film and Television Tax Credit;
- Ontario Production Services Tax Credit;
- Computer Animation and Special Effects Tax Credit;
- Book Publishing Tax Credit; and
- Sound Recording Tax Credit.

Further recognizing the importance of a vibrant cultural sector and the high value-added jobs it generates, the government introduced the following tax incentives aimed at encouraging jobs and investment:

- a 30 per cent refundable Ontario Book Publishing Tax Credit for publishing and promoting the first three literary works of a Canadian author; and
- a 20 per cent refundable Ontario Sound Recording Tax Credit for producing sound recordings by emerging Canadian artists.

This budget proposes to enhance Ontario's support for Canadian film and television productions by allowing the Ontario Film and Televison Tax Credit to be claimed on equity investments by government agencies.

Mining Industries

Ontario's mining industry is an important source of jobs, especially in the North. In 2000, the government announced a plan to cut the mining tax rate to further support the competitiveness of the Ontario mining industry. In 1995, Ontario's tax rate on mining profits was 20 per cent. Today, the mining tax rate is 12 per cent. By 2004, it will fall to 10 per cent—an overall rate cut of 50 per cent.

In 2000, the government also introduced enhanced incentives for investors in flow-through shares for mineral exploration.

Promoting Key Objectives through Tax Reductions

Additional tax reductions and incentives are being provided to achieve a variety of important objectives.

Supporting Choice in Education

In 2001, the government acted to support parents who want more choice with respect to their children's education, particularly those who want their children educated in a manner that is consistent with their cultural and religious beliefs. The Equity in Education Tax Credit provides parents with a partial tax credit on the first $7,000 of eligible tuition expenses for children attending independent schools in Ontario.

Supporting Choice in Education

- Equity in Education Tax Credit

The government is reconfirming its commitment to support parental choice in education by proposing to accelerate the phase-in of the tax credit rate, and by introducing legislation to prescribe the remaining steps of the phase-in schedule.

Ontario Tax Support for Education

- School Bus Safety Tax Incentive;
- Educational Technology Tax Incentive;
- Retail Sales Tax Exemption for Donations to Educational Institutions;
- Retail Sales Tax Exemption for Educational CD-ROMs; and
- Increased Personal Income Tax Credits for Post-Secondary Students.

Retail Sales Tax Reductions

Retail sales tax on auto insurance premiums has been reduced from five per cent and will be fully eliminated by April 1, 2004. Retail sales tax on repairs and replacements made under warranty will also be eliminated by April 1, 2004, down from a rate of eight per cent.

First-Time Home Buyers

To promote home ownership, the government provides a refund of up to $2,000 in Land Transfer Tax (LTT) paid on the purchase of a newly built home by first-time buyers. The LTT refund program supports job creation and the housing industry, an important part of the Ontario economy.

Other Key Tax Reductions and Incentives

- Retail sales tax exemption for farm building materials;
- Elimination of capital tax for credit unions and caisses populaires;
- Elimination of gross receipts tax;
- Extension of the retail sales tax rebate for alternative fuel vehicles to electric hybrid cars, light trucks and sport utility vehicles;
- Extension of audio books from the retail sales tax for people who are blind;
- Exemption of biodiesel from the 14.3 cents/litre fuel tax; and
- Retail sales tax exemption for call centres.

Energy Incentives

Last fall, the government introduced the *Electricity Pricing, Conservation and Supply Act, 2002* to protect families, small businesses and farmers from high energy prices, and to increase energy supply and promote conservation.

The Act included a comprehensive tax package designed to encourage rapid development of clean, alternative or renewable sources of electrical energy. The measures will also encourage consumers to conserve energy and use it more efficiently, reducing the demand for electricity and promoting clean air in Ontario.

This budget proposes a new tax incentive for investments in self-generated electricity, including co-generation, as well as additional support for energy conservation and renewable green energy.

Energy Incentives

Announced in November 2002

- A 10-year corporate income tax holiday for new electricity generation from alternative or renewable energy sources;
- A 10-year property tax holiday for new facilities that generate electricity from alternative or renewable energy sources;
- An immediate 100 per cent corporate income tax writeoff for new assets used to generate electricity from alternative or renewable energy sources;
- A capital tax exemption for new assets used to generate electricity from alternative or renewable energy sources before January 1, 2008;
- A retail sales tax rebate for qualifying Energy Star® clothes washers, dishwashers, refrigerators and freezers purchased before November 26, 2003;
- A retail sales tax rebate for building materials purchased and used after November 25, 2002 and before January 1, 2008 to build electricity generating facilities that use alternative or renewable energy sources; and
- A five-year retail sales tax rebate for residential solar energy systems.

New Measures

- An expanded retail sales tax rebate for solar energy systems to include other eligible residential energy systems;
- An increased retail sales tax rebate for certain alternative fuel vehicles, to a maximum of $2,000;
- A 100 per cent corporate income tax deduction for new assets used to self-generate electricity from alternative or renewable energy sources; and
- A two-year transfer tax exemption for sales and amalgamations of publicly owned municipal electricity utilities to encourage greater rationalization and efficiency.

Multi-Year Tax Reductions to Boost Long-Term Job Creation

In order to increase Ontario's competitiveness, encourage new investment and better support high-value-added jobs, the 2000 Budget announced a multi-year plan to cut corporate income tax rates.

Ontario's plan to cut corporate income tax rates is continuing as currently scheduled. The general corporate income tax rate has been cut from 15.5 to 12.5 per cent, and the manufacturing and processing rate has been cut from 13.5 to 11 per cent. By 2006, Ontario will have a single rate of eight per cent. The small business rate, which is currently available to businesses with less than $320,000 of income, has been cut from 9.5 to 5.5 per cent and will be further cut to four per cent by 2005.

Ontario's combined general corporate tax rate is no longer one of the highest in the world. It is lower than the combined average rate of the neighbouring states in the United States, much closer to the current Organisation for Economic Co-operation and Development (OECD) average rate and below the current rates in the United States, Japan, Germany and Italy.

Although Ontario's statutory corporate income tax rates are becoming increasingly competitive, it is not enough to look at income tax rates only. Business investment decisions are likely to be based on the effective corporate tax rate on capital investment. Effective tax rates measure taxes paid as a percentage of income earned where after-tax income is enough to justify making an investment. Studies have shown that the effective tax rate in Ontario remains higher than the rate in the United States, despite our lower corporate income tax rate.

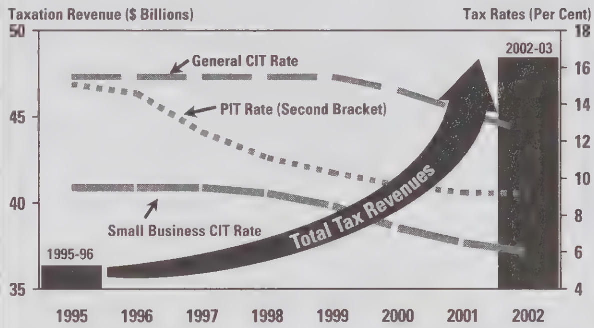
This budget proposes to reduce capital tax rates for all corporations and to eliminate the capital tax at the same time that the federal government eliminates its capital tax. Eliminating the capital tax would significantly lower the effective tax rate on capital investment and encourage economic growth, job creation and prosperity. Most of Ontario's competitors do not have a significant capital tax.

Real Benefits from Ontario's Tax Reductions

The benefits of Ontario's tax reductions to date are significant. These tax cuts, together with the further measures proposed in this budget, would provide over $16 billion in benefits to individual and business taxpayers in Ontario.

In the last several years, economic growth in Ontario has exceeded that of the rest of Canada, the United States and the average of industrialized countries. More than one million jobs have been created in Ontario since 1995.

Tax Revenues Grew as Tax Rates Cut



Source: Ontario Ministry of Finance.

While individual taxpayers and businesses benefit from the government's tax cuts, Ontario's tax system is producing more revenue overall. This enables the government to invest in key priorities and continue to provide the services that Ontarians have come to expect.

Paper F

Progress Through Partnership: Implementing Multi-Year Base Funding in Ontario

Introduction

The people of Ontario deserve the highest quality public services from their hospitals, schools, colleges and universities.

- People deserve hospitals that respond to the needs of everyone.
- People deserve schools that ensure the province's students will have the resources they need to reach their full potential.
- People deserve colleges and universities that ensure that there will be a space for every willing and qualified student in Ontario.

Quite simply, improving public services means improving the quality of life. Taxpayers need to know that government is doing all it can to safeguard the future of public services. Government must demonstrate to taxpayers that their hard-earned dollars are being used effectively and show taxpayers the results of their investment. It is not enough for government to spend—it must demonstrate that it is investing in strategic priorities that will improve life in Ontario.

To do so, the public debate must go beyond a one-dimensional discussion of amounts spent to an understanding of success in terms of results. In the future, the focus will shift more to measuring improvements that taxpayer investments have bought. This government is determined to continue to improve the way it assesses, funds and reports on the services that the people of Ontario value. The government continues to look to itself first in improving its efficiency and effectiveness. The government is delivering on this objective by making program evaluation a permanent part of Ontario Government business. This initiative will review all areas of government spending each year, including priorities such as health and education, to ensure taxpayers' investments in those priorities are producing the desired results.

The Ontario Government promised to develop a model of multi-year base funding (MYBF) for hospitals, school boards, colleges and universities. This will provide transfer partners with increased funding stability and a better planning horizon. Transfer partners will be able to use increased certainty to provide more effective and efficient services. These improvements will be possible only through partnership based on accountability. Collaboration is essential as the government continues to build public services that the people of Ontario trust, value and can afford. The result, over the long term, will be better health care and better education.

MYBF can be described as a process. This paper outlines the policy framework that will shape that process in Ontario. It will describe the government's broad vision for a multi-year strategy

and outline the supporting mechanisms that will help to achieve that vision. The process outlined in the MYBF policy framework is the key to ensuring stability and enhancing accountability.

For MYBF, this coming year will be one of transition. The 2003 Budget presents multi-year base targets for each sector in Budget Paper B: *Ontario's Fiscal Plan*. However, the key to success will be getting the policy framework right as the basis for future discussion. It is important to remember that this is a step-by-step process that will be tailored to the individual needs of each sector.

> "... my government will continue to follow the very simple, four-step formula ...
>
> We ask for your input. You answer. We listen. We take action.
>
> We believe that's how government should operate."
>
> *Premier Ernie Eves,*
> *Rural Ontario Municipal Association/*
> *Ontario Good Roads Association,*
> *February 24, 2003*

Recently, Premier Eves reiterated the need for collaborative, trust-based partnerships between government and broader public-sector (BPS) organizations. Consistent with this vision, the government recently held consultations with hospitals, school boards, colleges and universities on the underlying principles and key elements of an MYBF policy framework. The comments received from these stakeholders are the necessary first step in the design of a sustainable MYBF approach.

Background

The need for increased stability in funding has been a recurring theme in consultations with transfer partners in the health and education sectors. Organizations have underscored the importance of funding predictability, stressing that it would translate into better planning, management and improved services. Ontario's hospitals, school boards and post-secondary institutions should be able to focus on delivering high-quality public services and on the achievement of outcomes.

> "OCSTA welcomes the government's decision to move to multi-year funding for school boards. Reliable multi-year grant forecasts, coupled with adequate resources, will enable boards to engage in effective long term planning and will afford increased spending flexibility."
>
> *Ontario Catholic School Trustees' Association, 2003 Pre-Budget Submission*
>
> "The 'Stop & Go' funding mind set needs to be replaced with a commitment to a funding model that supports stability and long-term planning."
>
> *Ontario College of Family Physicians, 2002 Pre-Budget Submission*
>
> "The OHA and its Working Group welcome the government's commitment to multi-year funding and support the government's view that multi-year funding commitments would allow hospitals to better plan programs and address staffing needs over a reasonable time horizon."
>
> *Stability and Sustainability: A Multi-Year Funding Policy for Ontario Hospitals, Ontario Hospital Association, October 2002*

A clear example of how MYBF allows for better planning is the action that the government took in 2001 to ensure that every willing and qualified Ontario student will have a place in a post-secondary education institution. Recognizing that population growth, increased participation rates and secondary-school reform would significantly increase enrolment in post-secondary institutions, the government committed to increase operating grant funding in proportion to the projected enrolment growth. Assured of the levels of future funding, post-secondary institutions are now able to better plan for the single-largest increase in enrolment since the 1960s.

Understanding the complexities of MYBF can be supported by the examination of other jurisdictions' experiences with multi-year planning and funding strategies. Several jurisdictions have developed multi-year approaches as part of efforts to improve fiscal discipline, as well as promote stability and sustainability of public services. The United Kingdom, the Australian state of New South Wales and British Columbia are among the many jurisdictions pioneering multi-year approaches at various levels of the public service.

- The United Kingdom has adopted a Golden Rule of fiscal responsibility, which states that government will borrow only to invest and not to fund current spending. To focus on results, in its biennial spending reviews, the United Kingdom publishes three-year departmental expenditure limits coupled with multi-year service delivery plans.
- In New South Wales, recent reform has resulted in the implementation of multi-year arrangements for Area Health Services, including service agreements and minimum quality standards.
- In late 2002, British Columbia announced a three-year block funding approach for their five regional health authorities. Consistent with the principles of fiscal responsibility and risk sharing, balanced budgets are required through three-year transfer payment agreements with each authority.

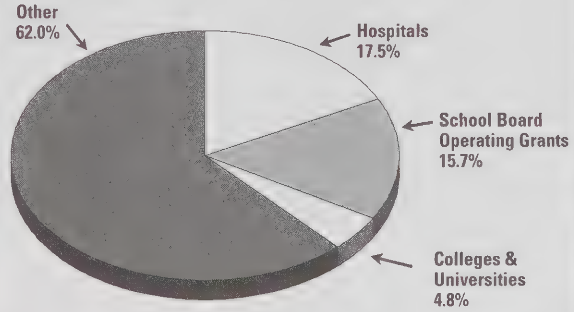
The Commitment

> "... in the next year, we will begin to provide more stability and certainty for our public-sector partners by moving towards a multi-year approach to budgeting and funding."
>
> *Janet Ecker, Minister of Finance, Provincial Budget, June 2002*

The people of Ontario depend on the government and its partners to deliver key services. Teachers, nurses, doctors, professors and other dedicated professionals across the province work hard to establish trust in public services. Stable and sustainable funding is the foundation upon which that trust is built. In last year's Budget speech, Minister of Finance Janet Ecker pledged to improve that foundation by developing MYBF for hospitals, school boards, colleges and universities. With this approach, also outlined in the Speech from the Throne, the government is giving these public-sector organizations more stability and certainty about funding for their operations over a three-year time horizon. Capital projects will continue to be planned and managed through the SuperBuild Corporation. Planning operating funding with greater certainty will allow organizations to focus on achieving results.

From the government's perspective, it is important that increased funding stability be achieved within the boundaries of existing government initiatives and direction. The MYBF framework must fit into the Government of Ontario's commitment to fiscal responsibility and balanced budgets.

Ontario Transfers to Major Transfer Partners as a Percentage of Total Program Spending, 2003-04



Source: Ontario Ministry of Finance.

Hospitals, school boards, colleges and universities and municipalities provide the people of Ontario with highly valued public services. In addition, these organizations make up a large part of total Provincial expenditures. Thus, the development of an MYBF policy framework will focus on these key partners. Although the current discussion around MYBF is focused on these four sectors, the government is committed to providing the same funding stability for other sectors. Municipalities represent important funding and delivery partners for the Province in a range of programs and services that are valued by taxpayers. The government has invited municipalities to begin a dialogue on a new, multi-year approach to municipal funding.

Principles

The 2002 Budget presented five principles as a starting point for discussion of MYBF: fiscal responsibility; risk management; openness and transparency; a focus on results; and enhanced accountability. The government has recently consulted with its transfer partners in the BPS and the consensus is that a MYBF policy framework is the way forward.

In addition to the principles announced in the 2002 Budget, other principles emerged:

- Flexibility—At both the provincial and organizational levels, strategic priorities, business realities and economic circumstances change. Flexibility is necessary to respond effectively to changing circumstances and to avoid unintended consequences.
- Adequacy—Public-sector organizations are depended on to provide quality services that are readily accessible to the people of Ontario.
- Quality information—Public institutions need high quality information to be able to make the right decisions at the right time and ensure that change and system integration are managed well. The success of MYBF depends on the development of consistent and appropriate performance measures.

The government has heard, and agrees, that a spirit of trust and collaboration between government and the BPS is necessary if MYBF is to translate into better planning and better services.

A Multi-Year Base Funding Policy Framework

With the advantage of consultations with transfer partners and the experiences of other jurisdictions, the government envisions an MYBF approach that:

- "sizes" the system using timely and reliable information on the volume, price and quality of service;
- includes agreements with BPS organizations that outline performance objectives, performance measures and risk mitigation strategies;
- allows for regular reviews of funding methodologies, risks and outcome-based performance information; and
- sets out minimum public reporting requirements.

This paper outlines the policy framework that will, over time, achieve that vision. The new long-term funding direction will be shaped by elements in four key areas: **responsible fiscal foundations**, **a focus on services**, **risk sharing** and **enhancing accountability**.

I. Responsible Fiscal Foundations

Fiscal responsibility is the cornerstone of the government's policies. The commitment to prudent fiscal management and balanced budgets has been essential to protecting public services by returning the economy to a strong growth track. Those principles will continue to shape Ontario's fiscal planning.

> "… taxpayers' pockets are not bottomless. Parents and everyone in the education sector must appreciate the connection between spending on public priorities and the fiscal resources available to the Province."
>
> *The Report of the Education Equality Task Force (the Rozanski Report), December 2002*

From the government's perspective, the MYBF framework will be built upon a foundation that must include:

- **Balanced provincial budgets.** The government is legally required to balance its budget and live within its means.
- **Prudent planning.** The government will use prudent assumptions about economic growth and revenue projections in its fiscal plans.

- **No automatic adjustments.** The government will not build automatic adjustments for inflation into the framework. Doing so would limit the government's flexibility and could expose taxpayers to unacceptable risk. Any adjustments to funding arrangements will be the result of explicit policy decisions.

An effective MYBF strategy rests on the ability to accurately forecast future government revenues. Ontario is not immune to economic and fiscal uncertainties. Even with prudent assumptions about growth, revenue forecast variance is inevitable and increases in the out-years. Because transfer payments represent a significant portion of the Provincial budget, increased attention must be directed to potential future revenue fluctuations.

While it is important to start with a prudent plan, ensuring sufficient flexibility in the event of economic uncertainty is also a key goal for government in developing an MYBF framework. Because government funding also supports such important public services as environmental protection, road safety and policing, any approach to MYBF must be done within an overall budget context that recognizes the need to protect these services over the long term.

II. A Focus on Services

While ensuring that its focus remains on the quality of services provided, not merely on the dollars spent, the government has two important roles in working towards this objective:

- It acts as an agent for taxpayers, who are ultimately purchasing public services with their tax dollars.
- It works on behalf of the users of public services to ensure that services are available, accessible and of high quality.

These roles lead inevitably to the conclusion that funding must support a system that is the right size and that provides services at a "price" that is fair to the taxpayer.

For MYBF to be successful, the framework must incorporate a

"Moving to a Service Based Funding (SBF) arrangement for remunerating hospitals (from the current system based on global budgets that are not tied to the specific levels of services delivered to patients) will enable Canadians to see—for the first time—the direct relationship between the level of funding and the number and types of procedures performed. This will help shift the public debate away from dealing exclusively with dollars in the abstract, to concretely evaluating the quantity of services that can be provided to patients by a given level of funding."

Highlights: Principles and Recommendations for Reform Part I, The Senate Standing Committee on Social Affairs, Science and Technology on the Health Care System in Canada (the Kirby Report), April 2002

mechanism for "sizing" the system using timely and reliable information on the volume, cost and quality of service.

To meet size and "price" needs, the base in MYBF must be driven by two factors: the number of people served (volume) and an affordable "price" for each service provided (rate). The result is a system that makes the factors that determine the budgets of public organizations clear to taxpayers. A volume-and-rate system also makes for easier comparison of results across sectors. Recent reports on the funding of public services—the Kirby Report on health care and the Ontario Hospital Association working group on MYBF—validate this approach. The recommendations made by the Education Equality Task Force are also based on a volume-and-rate system.

As the government moves forward on MYBF, the following questions remain important in determining appropriate volumes and rates for each sector:

- **What core services does each sector provide?** The goal is to define a set of core services that accurately reflects the basic ongoing activities of each sector while at the same time increase the understanding of how these services evolve over time.
- **How to best predict the volume of services used?** The volume part of the equation is seldom a simple projection of current levels. Certainly, demographics are a key determinant of service volume. However, an array of other less easily quantified factors have an impact on volume. Predicting service volumes is difficult because the definition of each sector's core services evolves over time.
- **What is the appropriate rate per unit of service?** The rate must reflect a balance of factors. That balance is achieved by weighing the need for efficiency against the need for adequate funding for quality services. The factors that influence the rate decision include technological changes, quality standards, program mix, economies of scale and government policy decisions.

III. Risk Sharing

> "Both the Province and school boards would benefit from multi-year planning of education funding. A multi-year model would provide an element of predictability and time to plan ahead for both partners, with the caveat, of course, that the Province's economic situation could change and that the multi-year process would have to be fluid and dynamic enough to recognize and adapt the model to such a change."
>
> *The Report of the Education Equality Task Force (the Rozanski Report), December 2002*

In addition to fiscal responsibility and a focus on services, the government is committed to efficient risk management. MYBF adds a new dimension to risk management efforts because uncertainty about future events tends to increase as the time horizon lengthens. The framework will seek to identify and

mitigate, through appropriate sharing mechanisms, the increased risks of longer-term budgeting and planning.

The government is committed to providing the people of Ontario with stable and sustainable public services. Achieving that goal requires the government to pay close attention to maintaining the Province's fiscal foundations without losing sight of service requirements. The impact of future uncertainty on both areas calls for a partnership between government and service providers in addressing these risks. As with all aspects of the framework, collaboration between government and BPS organizations will be key to solving this joint concern. To address concerns about the uncertainty of future events, the government envisions a review-and-renew process for MYBF.

- **Review and Renew.** This process will provide both government and BPS organizations with the flexibility needed to take a longer-term, more strategic view of major public services. To that end, the review-and-renew process should have the following core characteristics:
  - Collaborative—Close partnerships between government and BPS organizations are crucial to the success of MYBF. These partnerships should be open, transparent and ultimately trust building.
  - Evidence-based—The decisions resulting from the review-and-renew process must be based on solid, verifiable empirical evidence.
  - Longer-term perspectives—Broadening the planning horizon will focus dialogue between government and its partners on the issues that matter and away from day-to-day crises.
  - A balance between efficiency and adequacy considerations—Renewing funding arrangements for the future must consider both increases to address adequacy and restraint to address efficiency to ultimately determine what is appropriate.

  The review-and-renew process should focus on the following three elements:
  - The methodology of funding—Ongoing changes to both volume and rate considerations require periodic reviews to ensure that the funding framework is meeting its goals. Regular reviews of the funding formula components will build trust between the government and BPS organizations.
  - Development of performance information—Performance reviews support the principle of accountability and strengthen the key link between greater funding certainty and improved performance. Any discussion of MYBF must go hand in hand with a discussion of how government and its transfer partners will measure success.

- Risk management and sharing—The third vital topic for each review-and-renew process is the identification and management of risk. This begins with an open discussion of the nature of risks in each sector. Does managing risk for one party increase the risk for the other? Which risks cannot be controlled? Management strategies might include, for example, oversight of sectoral contingency funds; strategies for rapid response to unforeseen fiscal developments and changes in legislation; and design elements in funding formulas to allow for flexibility when needed.

A review-and-renew process will ensure a flexible multi-year framework. This will allow the funding system to evolve and adapt not only to changes in the fiscal plan, but also to any challenges that public-sector organizations may face in the future.

IV. Enhancing Accountability

Government is ultimately accountable to the people of Ontario to provide the best and most efficient services possible. MYBF will have failed to achieve its purpose if it does not lead to better service.

MYBF must include mechanisms to demonstrate performance. Therefore, to support the principle of accountability, the policy framework will work towards the following:

- **Service-based agreements.** Performance agreements with BPS organizations will outline performance objectives, performance measures and risk mitigation strategies. When accompanied by a comprehensive review-and-renew process, service-based agreements will promote an environment of innovation and progress.
- **New accountability legislation.** As recommended by the Ontario Financial Review Commission in 2001, common minimum accountability standards are an important step towards enhanced accountability. In the next year, the government will consult on the development of new accountability legislation that lays out a framework for planning and reporting for all organizations involved in MYBF arrangements. This legislation would allow each organization the flexibility to set its own objectives and performance measures within the context of overall sectoral objectives and performance measures. While efforts to establish sector-wide comparisons are important, it is crucial that each organization be able to reflect its unique goals and circumstances.

A Paradigm Shift

Since 1995, this government has demonstrated its willingness to spend more on priority areas, ensuring accessibility in the areas of health, education and post-secondary education. But spending more does not mean spending effectively. The people of Ontario deserve to know how spending improves services and how services are improving quality of life. The government must shift the paradigm of debate away from measures of "more or less funding" to "better or worse outcomes." While providing more stability for transfer partners, MYBF must also effect that change for the people of Ontario. Accountability requires that it work towards answering:

- How well are the government and transfer partners spending taxpayers' dollars?
- What is the impact of investments in programs?

The tool required to answer these questions is quality information. Both government and its partners recognize that shifting the performance paradigm is impossible without the right information at the right time. The entire public sector will need to do more to develop the necessary information management tools.

Therefore, the government is committed to:

- **Strengthening Our Partnerships**—As part of MYBF, the government will continue to develop strategic alliances with the BPS and related ministries through collaboration on training and research projects. In addition, the government will also focus on key information-development projects. The intention is to enhance the development and use of high quality information that is needed to support decision-making in the public sector.
- **Developing New Accountability Legislation**—Within the next year, the government will develop, in consultation with its transfer partners, legislation that would lay out common planning and reporting standards for BPS organizations involved in MYBF.

SIGNIFICANT INCREASES ARE TARGETED FOR 2005-06

Within the context of the MYBF process outlined in this paper, the government is taking the first step to increase funding stability for hospitals, school boards, colleges and universities.

Multi-Year Base Funding ($ Billions)

Sector	2002-03 Plan	2002-03 Interim	2003-04 Plan	2004-05 Projected Base Target[1]	2005-06 Projected Base Target[1]
Colleges and Universities[2]	2.5	2.6	2.8	3.0	3.1 21% over 2002-03 Plan
School Boards[3] (school-year basis)	14.3	14.8	15.3	15.8	16.2 14% over 2002-03 Plan
Hospitals[4]	9.4	9.8	10.3	10.6	10.9 16% over 2002-03 Plan

1. Targets represent funding on which the transfer partners can depend. They reflect the cost of continuing core services given projections of volume and decisions on funding.
2. Excludes ATOP, Nursing Baccalaureate and College and University Quality Assurance Funds.
3. Includes government response to Education Equality Task Force recommendations.
4. Accommodates projected impact of demographics and enhancements to services. Excludes Diagnostic and Medical Equipment Fund.

Source: Ontario Ministry of Finance.

- For 2005-06, the targeted base increase for hospitals is $1.5 billion, or 16 per cent, over the 2002-03 Plan before the Third-Party Review. Hospitals will also receive additional funding for medical equipment.
- For 2005-06, the targeted base increase for school boards is $2.0 billion, or 14 per cent, over the 2002-03 Plan, before the government began to respond to the Education Equality Task Force report.
- For 2005-06, the targeted base increase for colleges and universities is over $500 million, or 21 per cent, over the 2002-03 Plan. In addition to these base amounts, colleges and universities will receive funding for the Access to Opportunities Program (ATOP), the Nursing Baccalaureate and the College and University Quality Assurance Funds.

Of course, as part of the government's ongoing decision-making process, MYBF targets will be reviewed and renewed on a regular basis.

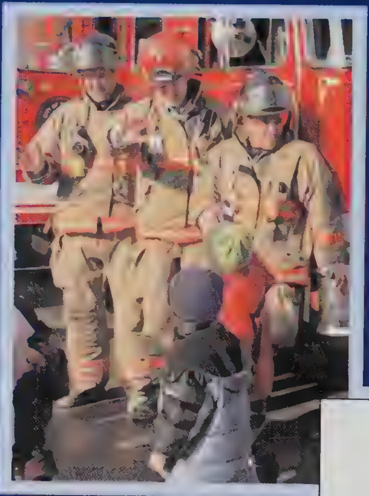
Increased funding comes with the responsibility of demonstrating better services through performance reporting. The public demands the best and most efficient services possible for taxpayer dollars. As MYBF evolves, the government and its transfer partners will develop performance measures to ensure that effective and efficient services are delivered to the public.

In addition to the MYBF targets above, an important next step is the government's invitation to municipalities for a dialogue on a new multi-year approach to municipal funding. The Government of Ontario is providing a sound basis for these discussions by committing to increased funding for municipalities over the next three years. The government is committed to working with municipalities to enrich accountability for public investment and public services.

The government is committing to increased funding for municipalities over the next three years. By 2005-06, funding for municipalities will have increased by 18 per cent, or $106 million over the 2002-03 Plan.

- 2002-03 plan: $582 million
- 2002-03 interim funding: $624 million
- 2003-04 plan: $649 million
- 2004-05: $668 million
- 2005-06: $688 million

MYBF represents the opportunity to build on the existing partnerships between government and organizations in the BPS. Over the next year, the government will continue with the consultative process and benefit from stakeholder feedback in order to move forward. The government and its partners in the BPS will work together to safeguard the future of the public services so important to the people of Ontario.



THE RIGHT CHOICES:
Securing our Future

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Ontario Budget

04

The Plan For Change

The Honourable Greg Sorbara
Minister of Finance

2004 Ontario Budget

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Budget Speech

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INTRODUCTION

Mr. Speaker, 14 years ago my friend and colleague Bob Nixon rose in this chamber to deliver a Budget. He was, until today, the last Liberal Finance Minister to do so.

And so it is with tremendous pride that I stand—as the Minister of Finance in Premier Dalton McGuinty's new Liberal government—to present a Budget that sets out a comprehensive four-year plan—a plan for growth, prosperity, better health care and better education for our kids.

On October 2, the people of this province voted for change. Today, this government is delivering the Plan for Change.

Mr. Speaker, the problems that we inherited are well known.

A large fiscal deficit. Deterioration of our core public services.

Overcrowded classrooms and crumbling schools, a shortage of doctors and nurses, cities and towns struggling to deliver basic community services, and a steady decline in Ontario's physical infrastructure.

These deficits are not our legacy—but they are our responsibility.

And we are assuming our responsibility to be prudent managers of the public purse.

We cancelled the private school tax credit, so we could invest in public schools. We cancelled a tax credit for some seniors, so we could improve services for all seniors.

We have said no to irresponsible tax cuts for some, so we can assume our responsibility to provide public services for all.

We introduced legislation to ban the waste of taxpayers' dollars on partisan political advertising—and to give the provincial auditor the power to examine, not just government ministries, but also hospitals and school boards, colleges and universities.

This government said no to a pay hike for MPPs. And, with this Budget, this government accepts a pay cut for cabinet ministers under the *Balanced Budget Act*.

The 2004 Budget follows the most comprehensive public consultations ever conducted by an Ontario government.

- In December 2003, the government extended an unprecedented invitation to all members of the Ontario Public Service to contribute their ideas for improving services and getting better results for public money.
- The Standing Committee on Finance and Economic Affairs held consultations in nine communities beginning February 2004.
- Town hall sessions were held in eight communities across the province, beginning February 2004.
- Ontario citizens in six cities took part in day-long sessions organized by Canadian Policy Research Networks in February and March 2004.
- In February and March 2004, the Minister of Finance held 14 pre-budget discussions in 10 communities.

Mr. Speaker, our plan flatlines or reduces the operating budgets of 15 ministries—so we can make historic investments in Ontarians' most important priorities: health care and education.

Over the past many months, we consulted extensively with people across the province about Ontario's future. They spoke with clarity and passion.

They spoke about the need to transform health care, and the importance of education.

They spoke about building stronger communities and about helping Ontario's most vulnerable.

They spoke about having a comprehensive, multi-year plan that lays the foundation for economic sustainability and growth.

Mr. Speaker, this Budget speaks to people about their needs and aspirations.

We consulted extensively with people across the province about Ontario's future. They spoke with clarity and passion.

It is a Budget by Ontarians, about Ontarians, for Ontarians.

It is rooted in a fundamentally different approach. For the first time, a Government of Ontario is presenting a detailed four-year fiscal plan.

It's a plan to balance the budget and return the province to financial health.

It's a plan to invest in health and education to produce concrete results, including better access to primary health care, shorter wait times for critical services and smaller class sizes.

It's a plan to foster economic growth and innovation through investments in education, training, health and infrastructure.

Mr. Speaker, every Budget is about choices.

We have made two important choices that are especially difficult—to increase revenues and to balance the budget over a number of years.

They are choices that are inconsistent with our election commitments. We openly acknowledge that.

However, it would simply not be possible to deliver a balanced budget this year without destabilizing vital public services and perhaps even the economy itself.

Such an approach would be irresponsible and we reject it.

Likewise, Mr. Speaker, none of us can afford to believe any longer that the problems in our health care system—

From ever-longer waiting times...

To the lack of family doctors...

To deteriorating long-term care—

Can be solved without additional revenue.

Our plan is clear—it is to make Ontario a leader in economic growth, vital public services and quality of life. That plan calls for a responsible mix of investment, revenue generation, cost cutting and economic growth.

So, to shorten wait times, to provide more doctors and nurses, to deliver results for patients, we are proposing an Ontario Health Premium.

It would be based on income, and it would be dedicated entirely to health.

Mr. Speaker, our plan is clear—it is to make Ontario a leader in economic growth, vital public services and quality of life. That plan calls for a responsible mix of investment, revenue generation, cost cutting and economic growth.

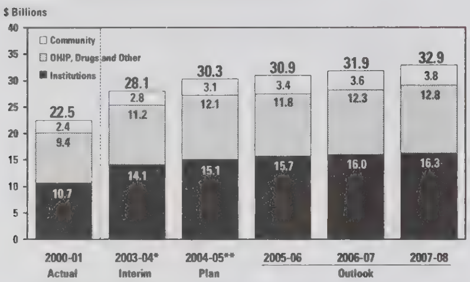
It calls for some difficult choices. We've made them, because they are the right choices.

Both the Romanow and Kirby reports have made important contributions to the ongoing discussion of health care sustainability in Canada. Both stressed the need to create a system where:

- Canadians have access to care 24 hours a day, 7 days a week, regardless of where they live;
- the skills of diverse health care professionals are utilized to their fullest; and
- the central focus of primary care is on preventing illness and injury.

Over the medium term, the government will invest in several key change strategies for the health care sector to keep Ontarians healthy and provide the high quality of services Ontarians expect.

Health Operating Spending



The health care system will be driven by the needs of patients and be evaluated on results, not just the amount of money spent.

The government will expand primary and community-based care to provide cost-effective alternatives to more expensive institutional care.

- Establish 150 multi-disciplinary Family Health Teams.
- Community health centres will enhance primary care delivery at 54 existing centres and the number of centres will be expanded over the government's mandate.
- By 2007-08, enhancements to home care will provide an additional 95,700 Ontarians annually with care in their homes and provide end-of-life care to another 6,000 clients each year.
- Community mental health services will be expanded to serve an additional 78,600 patients annually by 2007-08 and include increased access to case management, crisis response and early intervention services.

BETTER HEALTH CARE

Mr. Speaker, we live in a province that has been a leader in public funded health care in the past. We need to be leaders again.

On the national stage, our Premier has been demonstrating tremendous leadership, working towards a new national health car deal.

But the health care needs of our people cannot wait. So we have been diligent in developing a four-year plan for better health care throughout the province.

It will shorten wait times.

It will focus on patients.

It will increase the number of doctors and nurses.

It will deliver results.

And it will have the resources it needs.

We live in a province that has been a leader in publicly funded health care in the past. We need to be leaders again.

I am announcing today that we will provide:

- An additional 36,000 cardiac procedures per year, by 2007-08;
- An additional 2,300 joint replacements each year, also by 2007-08;
- Beginning next year, we will be funding nine new MRI and CT sites; and
- An additional 9,000 cataract surgeries per year.

In study after study, year after year, we have been told that change in health care begins with primary care.

We are going to provide that care by creating Family Health Teams—doctors, nurses and nurse practitioners, working alongside other health care professionals, providing the best in around-the-clock health care.

For 2004-05, we will invest more than $600 million to support, and reform, primary care in Ontario.

Over the next four years, we will establish 150 Family Health Teams around the province.

The 54 existing community health centres will receive an additional $14 million in 2004-05, and we will expand the number of centres over the course of our mandate.

Our investments in primary care will ensure care—this year—for up to 167,000 Ontarians who cannot find a doctor.

In his landmark report on Canada's health care system, Roy Romanow called home care "the next essential service." We agree that home care is a critical component of our health care system.

Our plan will provide home care for an additional 95,700 Ontarians by 2007-08.

It will provide compassionate, end-of-life care to another 6,000 Ontarians, in their homes, by 2007-08.

Our investments in primary care will ensure care—this year—for up to 167,000 Ontarians who cannot find a doctor.

This expansion of home care will require an additional investment of $88 million in 2004-05, rising to $448 million over the course of our mandate.

Our seniors have made a unique investment in this province, Mr. Speaker.

So when they can no longer stay in their homes, they deserve long-term care that is the best care.

We will ensure the safety and dignity of our seniors with an additional investment of $406 million in long-term care facilities, growing to $546 million by 2007-08.

This will dramatically improve the quality of care for the thousands of Ontarians already in long-term care facilities.

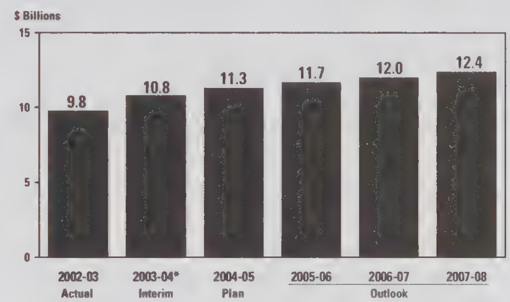
As my colleague George Smitherman, Minister of Health and Long-Term Care, announced last week, we will hire 2,000 new staff, including 600 nurses.

As well, in 2004-05, we will open an additional 3,760 long-term care beds.

While community-based care will play an increasingly important role in the health care system in the future, hospitals and other institutions will continue to play a significant role in delivering health care services. This Budget provides:

- a $470 million increase this year in operating support for hospitals;
- a $406 million increase this year for long-term care facilities including the costs of opening 3,760 additional beds;

Hospital Operating Funding



* Excludes costs of $65 million for one-time special assistance to hospitals.

- $60 million for bed lifts for hospitals and long-term care facilities;
- funding for hospitals, cancer centres and independent health facilities to expand services to reduce wait times for cardiac, cataract, and joint replacement surgeries, cancer treatment, and MRIs and CTs; and
- $5 million this year to establish a Cancer Care Innovation Fund to promote new approaches that will reduce waiting times and improve access to cancer treatment.

Initiatives that support healthy living, illness prevention and health promotion are key to improving and maintaining the overall health of Ontarians. This Budget supports these important programs by:

- enhancing the public health system's capacity to better manage infectious disease control and increasing the share of public health costs covered by the Province from 50 per cent to 75 per cent by 2007;
- providing $156 million to add three new vaccines to the children's immunization program;
- committing to provide a smoke-free environment in workplaces and public places within three years;
- promoting healthy lifestyles, better medication management and, where appropriate, alternatives to drugs;
- providing funding to the Advanced Coronary Treatment Foundation to train high school students in the use of CPR;
- increasing funding for the Aboriginal Healing and Wellness Strategy;
- helping children from lower-income families arrive in class ready to learn by providing school-based breakfast programs; and
- promoting, through Active 2010, increased participation in sports and physical activity, particularly for children, youth and low-income individuals.

Too many Ontarians suffer from mental health problems. And far too many suffer alone.

Our four-year plan provides community-based mental health services to an additional 78,600 Ontarians.

While improving community care, Mr. Speaker, we know that there will always be a need for the high-quality care provided in a hospital.

Hospitals have asked for multi-year funding so they can plan for the long-term needs of their communities.

They will receive increases that average 3.4 per cent between 2003-04 and 2007-08.

By putting more resources into community and home care, and by focusing more on prevention, we will enable hospitals to focus on those with acute needs.

Like most health care systems, ours is much better at treating illnesses than preventing them. We want to shift the focus to healthy living and illness prevention. This is the very best way to lower the cost curves for health care.

Mr. Speaker, like most health care systems, ours is much better at treating illnesses than preventing them. We want to shift the focus to healthy living and illness prevention. This is the very best way to lower the cost curves for health care.

We will provide free vaccinations to children for chickenpox, meningitis and pneumonia.

We will introduce legislation that would make all workplaces and public places smoke-free by 2007.

Mr. Speaker, we know there are illnesses we must prevent.

And in the wake of SARS and West Nile disease, we know that there may well be other diseases out there that we haven't heard of yet.

Therefore, Mr. Speaker, our investment in public health will increase immediately—to $273 million in 2004-05, growing to $469 million by 2007-08.

Today, public health costs are equally shared by the Province and municipalities.

Our plan increases the Province's share of public health funding to 75 per cent by 2007.

We are acting, as well, to ensure we have the doctors and nurses we need.

By 2007-08, the number of assessment and training positions for international medical graduates will double. So will the number of clinical education spaces for nurse practitioners.

Over the next four years, we will create 8,000 full-time nursing positions.

And to protect nurses on the job today from injury, we will purchase 12,000 bed lifts for hospitals and long-term care facilities this year.

But most importantly, we will treat our nurses, and all health care practitioners, with respect.

We will treat our nurses, and all health care practitioners, with respect.

Mr. Speaker, the initiatives I have announced today signal a substantial reorientation of health care towards a patient-focused, results-driven system that is sustainable.

There will be more hospital beds available sooner for important procedures, because more patients will be treated in home and community care.

Changing the system will shorten wait times.

So will the new investments I announced for those procedures Ontarians want and need the most.

More doctors and nurses, better primary care, shorter wait times—that adds up to healthier Ontarians.

But getting there is not going to be easy.

Today, 45 per cent of Provincial program spending goes to the Ministry of Health and Long-Term Care.

The government is implementing a comprehensive health human resource strategy designed to increase the supply of highly trained health care professionals by:

- increasing the number of full-time nursing positions by 8,000 over four years;
- supporting nurses who mentor nurse trainees;
- doubling the number of clinical education positions for nurse practitioners to 150;
- more than doubling the number of opportunities for international medical graduates to 200;
- improving working conditions for nurses and preventing workplace injuries by purchasing 12,000 bed lifts; and
- creating a Nursing Faculty Fund to increase the number of postgraduate trained nurses.

For the past five years, the health care budget in Ontario has grown by an average of eight per cent per year.

We must begin to bring these cost increases under control.

To improve cancer care and cardiac care, home care and long-term care, we have to de-list less critical services.

Beginning this fall, the Province will no longer cover the cost of routine optometry examinations—except for seniors and Ontarians under the age of 20.

We will no longer cover chiropractic and physiotherapy services—although seniors will continue to receive physiotherapy through home care and long-term care facilities.

These were not easy choices, but we believe they were responsible choices.

And Mr. Speaker, the most difficult, and most responsible, choice of all is to ask Ontarians to pay an Ontario Health Premium.

In short, every cent from this premium would be invested in health. Every cent from this premium would be used to provide better results in health care.

Mr. Speaker, you know and I know: this is something we promised not to do.

But in the context of the deficit...

To keep our promise to improve health care...

To serve a growing and aging population...

When wait times are too long, and the pressure on public health is greater than ever before...

It is the right thing to do.

It is the fairest way to fund the necessary investment.

The Premium would be based on income. People with the lowest incomes would pay nothing at all. Our very highest earners would pay $900 a year.

A key reform for Ontario's health care system is the reduction of wait times for critical health services. This Budget will:

- fund additional cataract surgeries, new MRI/CT sites, and increase the number of cardiac procedures, joint replacements, organ transplants and dialysis treatments;
- improve wait time information by updating the cardiac and cancer radiation registries this year, and in 2005-06, tracking information on hip- and knee-joint replacements; and
- provide $1 million this year towards establishment of an Ontario Health Quality Council, which will report annually to the public on how Ontario's health care system is working.

A family with two children and a combined income of $60,000 would pay $50 a month.

That does represent an additional cost for Ontario families, who work hard to make ends meet.

We do not minimize the significance of that cost.

But we did weigh it against the greater burden caused by a long wait for cardiac or cancer care, and the endless search for a family doctor—and the incredible burden that would be placed on our children if we do not sustain medicare for future generations.

Ontarians would begin paying the premium as of July 1, 2004. For fiscal-year 2004-05, it would generate $1.6 billion, which would partially offset the $2.4 billion increase in what we're spending on health.

In short, every cent from this premium would be invested in health.

Every cent from this premium would be used to provide better results in health care.

Ontario Health Premium

Taxable Income	Fully Implemented
up to $20,000	$0
$20,000 - $36,000	$300
$36,000 - $48,000	$450
$48,000 - $72,000	$600
$72,000 - $200,000	$750
more than $200,000	$900

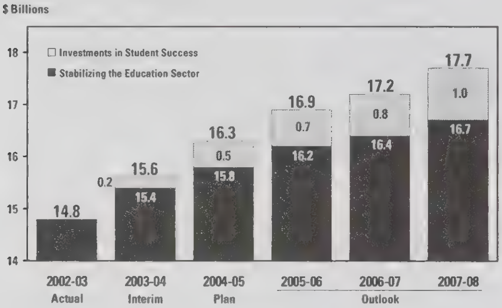
Premiums for 2004 would be half the amounts for 2005.

Some other provinces also charge health premiums. In British Columbia, a single individual pays $648 per year. A family of two pays $1,152, and a family of three or more pays $1,296.

In Alberta, a single individual pays $528 per year, and a family of two or more pays $1,056.

To ensure that sufficient resources are available to support ongoing improvements in student achievement, Ontario will make substantial investments in student success over the next four years.

Grants for Student Needs (GSN)
(School-Year Basis)



SUCCESS FOR STUDENTS

Mr. Speaker, when Ontarians chose change, they certainly had public education in mind.

Today, too many of our sons and daughters are struggling to succeed in school, and far too many are dropping out of high school, or failing to continue their education in a college or university, job placement or apprenticeship program.

We don't consider that even remotely acceptable.

The Budget we are presenting today includes historic new investments in education within a four-year plan. These investments are being directed with one overriding result in mind—better student achievement.

We will phase in a cap of 20 children per class, from JK through to Grade 3, over four years.

Judging from the results of province-wide tests, given in Grades 3 and 6, only about half of our students are meeting the provincial standard in reading, writing and math.

Our plan for public education sets a very ambitious target of 75 per cent in our first mandate.

How will we get there?

We'll start with smaller class sizes in the important early grades.

We will phase in a cap of 20 children per class, from JK through to Grade 3, over four years.

Smaller class sizes translate into more teachers. I am announcing today that we are funding training spaces for 1,000 additional new teachers in 2005-06.

This will ensure that we have enough teachers to implement our reforms.

We will place a lead teacher in literacy and one for numeracy in every elementary school, to encourage the use of effective teaching techniques.

This will require the training of 4,000 new lead teachers—doubling to 8,000 the number of specialists trained in best practices.

We will establish a literacy and numeracy secretariat to ensure schools, teachers and, most importantly, students are getting the supports they need when they need them.

We will send turnaround teams of experts into struggling schools—increasing from 42 to more than 100 the number of schools that receive extra support.

We will be investing substantially in school repairs, textbooks and other resources. My colleague Gerard Kennedy, Minister of Education, will announce details on this in the near future.

Mr. Speaker, the Premier has three new R's for education in Ontario:

Results, which we will deliver.

Respect. Our partners in education deserve nothing less.

And responsibility. Our responsibility, as a government, is to provide the necessary resources to achieve better results.

Over the course of the next four years, our plan will make public education the best education—helping our students achieve their true potential.

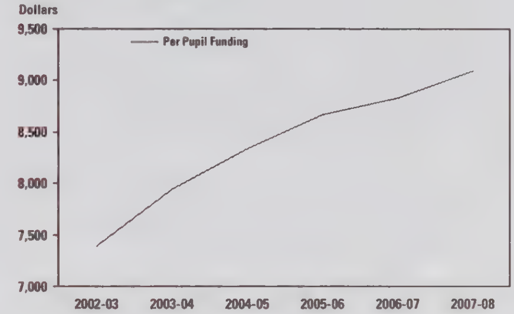
That's why, Mr. Speaker, we will be investing an additional $2.1 billion over the next four years in our schools. By 2007-08, we will have increased per-student funding by more than $1,100.

Mr. Speaker, over the course of the next four years, our plan will make public education the best education—helping our students achieve their true potential.

And that is the most important thing we can do to ensure Ontario reaches its full potential.

Under the government's plan, per-student funding increases significantly by 2007-08.

Grants for Student Needs (School-Year Basis)



STRONG COMMUNITIES

Mr. Speaker, the strength of our province depends on the strength o our communities—from our smallest rural communities to our biggest cities.

Never before have our municipalities faced so many challenges, from gridlock to soaring public health costs.

Our four-year plan will help them meet those challenges, improving the quality of life for Ontarians, wherever they live.

Starting in October, we will begin to deliver on our commitment to make two cents of the existing provincial gas tax available for public transit.

We will begin with one cent this October, increasing to one and a half cents in October 2005 and two cents in October 2006.

Our biggest cities play a critical role in our economy—and no city plays a bigger role in our shared prosperity than Toronto.

Starting in October, we will begin to deliver on our commitment to make two cents of the existing provincial gas tax available for public transit.

That's why Premier McGuinty recently signed an historic agreement with the Government of Canada and the City of Toronto to invest more than $1 billion in transit expansion and renewal over the next five years.

That includes an environmental assessment for a possible new subway line to York University.

This government is also proud to be working with the federal government and Greater Toronto Area municipalities to invest $1 billion in improving GO Transit.

We will introduce legislation to create a Greater Toronto Transportation Authority that would ensure a more seamless transportation system.

We have announced plans with the federal government and the City of Ottawa to provide a total of $600 million in support of the O-Train.

To support stronger communities, the Province will:

- dedicate two cents of the existing provincial gas tax to municipalities for public transit, beginning with one cent in October 2004, increasing to 1.5 cents in October 2005 and two cents in October 2006;
- increase the Provincial share of public health funding from 50 per cent to 75 per cent by 2007;
- commit $1 billion of joint funding with the federal government and the City of Toronto for the TTC;
- commit $1 billion of joint funding with the federal government and municipalities for GO Transit;
- introduce legislation to create a new Greater Toronto Transportation Authority;
- invest in transit for Ottawa and the Region of Waterloo;
- introduce legislation to enshrine the Association of Municipalities of Ontario Memorandum of Understanding;
- work with the federal government to ensure that municipalities have a seat at the table of national change; and
- work with the municipal sector on development of a growth management plan, infrastructure planning and financing, and achieving the 60 per cent waste-diversion target.

As well, we have announced plans with the federal government and the Region of Waterloo for a light rapid transit project in that area.

We will, this year, release the first-ever Growth Management Plan for the Golden Horseshoe, to encourage development that makes sense, while stopping sprawl that cannot be sustained.

The Premier will soon appoint a provincial facilitator to assist the industry and stakeholders on issues that arise as we implement the growth management plan.

As I have already mentioned, we are increasing the Province's share of public health costs, from 50 to 75 per cent over three years, uploading $127 million from the budgets of municipalities by 2007.

Premier McGuinty has asked my colleague, John Gerretsen, Minister of Municipal Affairs and Housing, to build on these initiatives through a dialogue with municipalities, taking into account their various needs and capacities.

What will emerge, Mr. Speaker, is a new and even stronger partnership—one that will provide municipalities with the tools they need to give Ontarians the quality of life they deserve.

Stronger agricultural communities

We must never forget, Mr. Speaker, the men and women who work Ontario's farms; who spend their days producing much of the food that feeds our families, and help fuel our economy.

Late last year, we signed an agreement with the federal government to implement the Agricultural Policy Framework, securing long-term funding to help Ontario's farmers.

This government will provide farmers with $20 million over the next two years to help them implement the first part of the nutrient management initiative.

Last month my colleague, Steve Peters, Minister of Agriculture and Food, announced an exemption from the land transfer tax for farms that transfer ownership between members of the same family.

This removes an obstacle to passing on the farming tradition from generation to generation, a tradition that is a vital part of this province's heritage.

Canada and Ontario are working together on innovative and collaborative provision of public services.

Agriculture

- Potential $990 million under the Agricultural Policy Framework for insurance against crop failures and low commodity prices.
- $141 million for environmental safety, food safety and quality, science and innovation and sector renewal.

Infrastructure

- $1 billion of joint funding for the TTC.
- Windsor Gateway Action Plan.
- $168 million Strategic Highways Infrastructure Program.

Healthier Ontarians

- $778 million CHST top-up funding.
- $330 million in funding for SARS costs.
- $116 million for vaccines.

Supporting the vulnerable

- Labour Market Agreement for Persons with Disabilities.
- 2,300 new affordable housing units.

Joint Service Delivery Strategy

- Co-ordinated emergency management systems.
- Improved electronic service delivery, including a collaborative seniors portal.
- Improved immigration services.
- Integrated labour market program.
- Integrated inspections for workplace health and safety, environmental assessment and food safety.

The government's Northern Prosperity Plan involves a range of targeted initiatives that will:

- help attract outside investment;
- improve opportunities for entrepreneurs already living in the North; and
- invest in the infrastructure of northern communities.

For 2004-05, the government will:

- move forward with $135 million in community infrastructure initiatives through the Northern Ontario Heritage Fund;
- propose a Northern Ontario Grow Bonds pilot project;
- dedicate $10 million to support the new Government of Ontario (GO) North Investor program; and
- consult on Provincial Land Tax reform.

As well, we will introduce legislation to simplify the process for farmers to obtain retail sales tax exemptions on farm-related supplies and equipment.

To improve food safety and boost business and consumer confidence, we have hired 118 meat inspectors and commissioned a review of the province's meat-inspection system.

I am also announcing that this government will provide farmers with $20 million over the next two years to help them implement the first part of the nutrient management initiative.

And finally, our government will consult with rural residents and stakeholders to better understand the unique priorities of rural communities across the province. We have a responsibility to make the changes that are needed to ensure that these communities enjoy improved prosperity, environmental well-being and a greater quality of life.

Prosperity in the North

Mr. Speaker, ours is a vast province, and 90 per cent of it is Northern Ontario.

My northern caucus colleagues are fond of reminding me it is the top 90 per cent.

Unfortunately, the extraordinary potential of the North remains largely untapped.

Our government is committed to enacting a Northern Prosperity Plan, to help northern communities attract and retain investment and jobs.

Our government is committed to enacting a Northern Prosperity Plan, to help northern communities attract and retain investment and jobs.

We will move forward this year to establish a Northern Ontario Grow Bonds program that would help new and expanding businesses in northern communities.

I am particularly excited about our GO North initiative, designed to market the North's inherent strengths across the continent and around the world.

And finally, recognizing the importance of maintaining tax support for northern resource companies, we propose not to parallel federal changes to the resource allowance.

Northern Ontario is a region of boundless potential. The people who live there ask no more than to be given the opportunity to realize that potential. Our government will help make that happen.

Helping the most vulnerable

Mr. Speaker, during the course of our pre-budget consultations, Ontarians sent us very compelling messages. One of the most compelling was this:

Whatever challenges the province faces, we must not forget the challenges faced by the most vulnerable.

I heard that message loud and clear. So did every member of the Ontario Liberal caucus.

We will work with the federal government and municipalities to increase the number of affordable housing units in Ontario, with a particular focus on appropriate housing for persons suffering from mental illness, victims of domestic violence and the working poor.

And so, today, I am pleased to make a long-overdue announcement.

Social assistance recipients will receive an additional $106 million annually. This will reflect a three per cent increase to the basic allowance and maximum shelter allowance for recipients of the Ontario Disability Support Program and Ontario Works.

My colleague, Sandra Pupatello, Minister of Community and Social Services, will announce details around the implementation of this increase in the very near future.

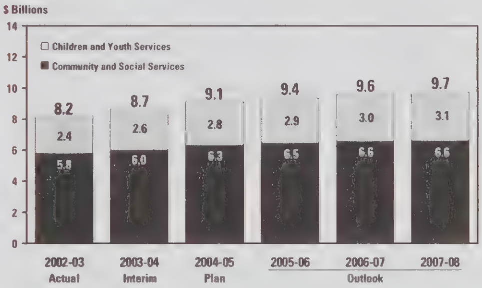
Mr. Speaker, this is the first increase in these programs in 11 years.

I am also announcing that social assistance benefits will not be reduced this year to take into account the federal government's July 1 increase to the National Child Benefit Supplement. This will mean that this fiscal year, there will be an extra $7 million for parents who need it most.

Housing, Mr. Speaker, is a basic human need—and the need is greatest for the most vulnerable among us.

The government will move to revitalize the social services sector and provide effective and co-ordinated supports to Ontario's children, families and vulnerable people.

Social Services
Operating Spending



Note: Numbers may not add due to rounding

Funding for the social services sector, which includes the Ministries of Children and Youth Services and Community and Social Services, will increase by over $1 billion by 2007-08 from the 2003-04 level.

The government has made a strong commitment to help protect women and children from domestic violence. In this Budget there is:

- a $3 million increase in operating funds for women's shelters and counselling agencies;
- additional capital funding of $8 million in 2004-05 for the expansion of women's shelters;
- $3.5 million annually to provide supports for women and children in second-stage housing;
- $4.9 million over four years for a public education and awareness campaign; and
- funding for training of police officers, Crown attorneys and others working in the justice system to better assess risk in abusive situations.

We will work with the federal government and municipalities to increase the number of affordable housing units in Ontario, with a particular focus on appropriate housing for persons suffering from mental illness, victims of domestic violence and the working poor.

We have already committed $8 million in support for victims of domestic violence—and $28 million over the next three years, to create new housing spaces for people with developmental disabilities.

I am announcing today an additional $25 million for children's mental health programs for 2004-05, growing to $38 million in 2005-06.

This funding, Mr. Speaker, will help an additional 7,000 children each year.

Children's Treatment Centres help parents obtain and co-ordinate a range of services for children with disabilities.

A $24 million capital investment over four years will allow them to better focus on this critically important work.

Mr. Speaker, this government is committed to giving children in Ontario the best possible start in life by increasing the quality and quantity of child care in Ontario.

I am announcing today that we will work with our municipal partners to create an additional 4,000 subsidized day-care spaces.

These will be provided as part of the Federal-Provincial Framework on Early Learning and Child Care.

Mr. Speaker, thousands of Ontario seniors struggle to make ends meet—particularly those living on fixed incomes, with no easy way to adjust to even a small increase in the cost of living.

We're going to help. We are proposing to increase the property tax credit for seniors with low and moderately low incomes by $125. That is the first such increase since 1992.

\ NEW GENERATION OF ECONOMIC ;ROWTH

Ir. Speaker, none of the results that we hope to achieve with this udget will be possible unless we lay the groundwork for renewed rowth of the Ontario economy. That must be the primary bjective of every Budget.

ur goals are lofty. We are determined to make Ontario the North merican leader in economic growth and innovation.

We're going to do it with a fiscal policy agenda designed to eliminate the deficit over our first mandate;

We're going to do it with a competitive tax system that provides the revenue necessary to fund sustainable public services;

We're going to do it with a well-managed, efficient government;

And we're going to do it by revitalizing our infrastructure, rebuilding our electricity sector, and by maintaining a high standard of public services.

ur plans for health care and education are as important to the conomy as they are to the men, women and children who will enefit directly from them.

> **Just as our health care system gives our businesses a competitive advantage, so too does public education give our workers a critical edge.**

Ve don't always think of health care as an economic driver, but can tell you our auto manufacturers do. Their labour costs are 0 per cent lower than those of their competitors south of the order, and our public health care system is a big part of that.

nd just as our health care system gives our businesses a ompetitive advantage, so too does public education give our orkers a critical edge.

ur plan for public education will create a system that will teach ur children the skills they're going to need, in a world where rosperity and growth are driven by knowledge.

ost-secondary education

ut building a high-skill, high-wage economy requires more than xcellent public schools—it requires higher learning that is second) none.

Innovation derived from scientific research is important for Ontario's economic growth. To help commercialize publicly funded scientific research and development, the government will:

- provide $27 million to help universities, colleges and hospitals identify discoveries with commercial potential; and
- provide up to $36 million to help these institutions establish pools of seed capital to commercialize promising technology.

Competing for investment and promoting exports requires Ontario to support its firms internationally. The government will:

- create a market diversification advisory council and open additional international marketing centres.

The government is making improvements to the Ontario Student Assistance Program (OSAP) that will benefit 50,000 Ontario students. Improvements to OSAP include:

- a $20.9 million enhancement in 2004-05;
- harmonizing with the Canada Student Loans Program;
- reducing the parental contribution;
- waiving the 12-month residency rule for immigrants;
- updating the definition of "independent" student;
- increasing debt forgiveness for loans in near-default; and
- extending OSAP to accepted refugees.

To that end, I am pleased to announce that former premier Bob R has agreed to conduct a comprehensive review of post-secondary education in Ontario.

His mandate will be to recommend how we can best provide Ontarians with a high-quality, accountable, affordable system of post-secondary education—one that gives Ontarians the opportunity to achieve their full potential, regardless of income.

While we await the results of Mr. Rae's review, we will push ahea with a number of initiatives to improve the system.

We recently announced a two-year freeze on tuition fees. I am delighted today to announce that we are providing funding to colleges and universities to make up revenue shortfalls for both those years.

More than 50,000 students will have greater access to student loa because of reforms and a $20.9 million enhancement that we are making to the Ontario Student Assistance Program.

> **We recently announced a two-year freeze on tuition fees. I am delighted today to announce that we are providing funding to colleges and universities to make up funding shortfalls for both those years.**

Our province faces a shortage of workers in the skilled trades and other technical occupations.

In recognition of the critical role that our colleges play in tackling that challenge, I am announcing $20 million to update technology and equipment in our colleges, and $25 million in one-time colleg stabilization funding, targeted primarily at smaller rural and northern colleges.

Training

Mr. Speaker, it is a fact that about half of Ontario's high school students, by choice or circumstance, do not go on to pursue a pos secondary education. Our government is committed to giving thes young people the opportunity to benefit from, and contribute to, Ontario's economic growth.

The apprenticeship system is key to encouraging growth, as well a providing an important career path for young people who choose not to attend college or university.

am announcing today several initiatives that would increase the umber of apprenticeships in the province, helping ensure that we ave skilled workers in the construction, industrial and ianufacturing sectors in years to come.

new Apprenticeship Training Tax Credit would encourage mployers to hire and train apprentices in skilled trades.

Ve will increase funding to classroom training for the pprenticeship Program.

3y 2007-08, 26,000 young people will be entering apprenticeships ach year, because they had an opportunity to keep learning after eaving school.

The apprenticeship system is key to encouraging growth, as well as providing an important career path for young people who choose not to attend college or university.

'here will also be new programs for young people who have ropped out or are at risk of dropping out of high school.

oreign-trained workers

Ar. Speaker, every year about 125,000 people arrive from around he world to make Ontario their home. They enrich our province oth culturally and economically.

)ntario was built on immigration; without it, our economy would rind to a halt. We owe it to new Ontarians and we owe it to urselves to speed their integration into our workforce.

s I mentioned earlier, we are more than doubling the number of ssessment and training positions for international medical-school raduates.

Ve will also start to tear down the barriers that face immigrants rying to enter the trades and professions.

Ve will invest $9.5 million this year, growing to $12.5 million in 005-06, to improve foreign-trained workers' access to the jobs hey are trained to perform.

nfrastructure

'he strongest societies and the strongest economies are rooted in nodern, reliable, efficient and affordable infrastructure.

The government is proposing a new Apprenticeship Training Tax Credit.

- Corporations and unincorporated businesses would be eligible for a 25 per cent refundable tax credit on salaries and wages paid.
- For businesses with total payrolls of up to $400,000, the tax credit would increase to 30 per cent.
- An employer would be eligible for a tax credit of up to $5,000 per year per eligible apprentice to a maximum of $15,000 over the first 36 months of the apprenticeship.

Fifteen hundred $1,000 scholarships annually for high school leavers who return to complete high school and enter apprenticeships.

Under the same scholarship program, employers hiring these apprentices would receive a $2,000 per-apprentice signing bonus.

The government will take action to remove the barriers faced by internationally trained individuals that prevent them from pursuing their profession or trade. Providing $12.5 million annually by 2005-06, the Province will:

- work with professional regulatory bodies and employers to increase access and eliminate barriers to credential recognition and job entry;
- expand training and employment services to help internationally trained individuals make the transition to Ontario's workforce; and
- improve information on employment opportunities and requirements for individuals considering immigration to Ontario.

Almost every area of business and government activity is dependent to some extent on infrastructure.

Infrastructure provides the foundation, literally and figuratively, f cities that are livable, water that is drinkable, power that's reliable

But Ontario's foundation is eroding. We face a serious infrastructure deficit. That is why we created the Ministry of Publi Infrastructure Renewal.

This year, we will make an investment of $3.3 billion in improvements to Ontario's infrastructure.

At the same time, my colleague, David Caplan, Minister of Public Infrastructure Renewal, is developing a 10-year infrastructure plan It will establish our investment priorities for the 21st century.

I am announcing today that we are supporting that plan by creatin the Ontario Strategic Infrastructure Financing Authority, as well as Infrastructure Renewal Bonds.

The strongest societies and the strongest economies are rooted in modern, reliable, efficient and affordable infrastructure.

The Authority will provide affordable financing to meet municipal health, education, post-secondary and housing priorities.

Funding for the Authority's loan program will come from the sale of Infrastructure Renewal Bonds.

We also invite the federal government to affirm its commitment to infrastructure renewal by joining us in this new initiative.

Mr. Speaker, we are already moving ahead with innovative policy in key infrastructure areas.

I have already mentioned our government's historic commitment t public transit—a commitment that will be demonstrated through more announcements across the province this year.

At the same time, we are investing nearly $1 billion this year to keep our roads safe—and to support the movement of goods on which our economy depends.

Mr. Speaker, as my colleague, Leona Dombrowsky, Minister of the Environment, has reminded this House, governments have a duty t protect the quality of public drinking water. And we remain

In 2004-05, the government will invest $3.3 billion in Ontario's infrastructure, including:

- almost $450 million for transit, including the first year of $1 billion cost-sharing agreements for GO Transit and the TTC;
- almost $1 billion for the upkeep and expansion of the province's 16,500-kilometre highway system;
- $346 million for hospitals, long-term care facilities and community care facilities to help reduce wait times and improve health care services;
- more than $100 million to create new spaces at Ontario's universities and community colleges;
- more than $250 million for clean water;
- almost $100 million for court and correctional projects, including initiatives to address court backlogs;
- $20 million for technological education equipment in high schools; and
- $505 million for municipal and local infrastructure, including $85 million for affordable housing.

The government is creating the Ontario Strategic Infrastructure Financing Authority (OSIFA) to provide affordable financing to assist public-sector partners in renewing critical public infrastructure.

›mmitted to implementing all the recommendations of the ’Connor report.

his year, we will provide more than $400 million to support ›urce-to-tap drinking water initiatives.

luch of this funding will be used to help municipalities bring their ater treatment facilities up to the world-class standards set out in ntario’s *Safe Drinking Water Act*.

lectricity

lr. Speaker, our people—our economy—depends on safe, fordable and reliable energy—and electricity in particular.

he work of rebuilding Ontario’s electricity sector—which we ›gan within days of taking office—will mark every day of our andate.

ı June, the Minister of Energy, my colleague Dwight Duncan, will ıtroduce legislation to reform the electricity sector.

Our economy depends on safe, affordable and reliable energy.

would see:

- a combination of a regulated and competitive electricity market that would provide more stable prices that reflect the true cost of electricity;
- the encouragement of new investment;
- an aggressive conservation strategy that would make Ontario a leader in energy efficiency;
- action to meet the critical need for new supply; and
- the creation of an independent body, the Ontario Power Authority, to ensure long-term supply.

mall business

lr. Speaker, job creation is the most important measure of a rowing economy. This government understands that small usiness makes a big contribution to job creation and economic rowth in Ontario.

hat’s why we held the line on the small business corporate income x rate last fall when corporate income tax rates were raised.

The small business sector is a big contributor to job creation and economic growth in Ontario. That’s why the government is:

- proposing a new Apprenticeship Training Tax Credit, to increase the number of apprenticeships available;
- removing barriers for foreign-trained workers;
- holding the line on the small business Corporate Income Tax rate;
- maintaining the $400,000 exemption for Employer Health Tax;
- initiating a one-stop Web Business Portal;
- converting the Red Tape Commission to a small business agency;
- creating the Small Business Tax Administration Advisory Committee; and
- supporting Ontario’s film and television industry.

We also accelerated the increase in the small business threshold, and we are continuing to exempt the first $400,000 of private-sector payrolls, and all self-employment income, from the Employer Health Tax.

I am announcing today that we are moving forward in creating a one-stop Web Business Portal, a resource that will simplify registration and change-of-business information for small busines

To better meet the needs of small business, we will meet our commitment to convert the Red Tape Commission into a small business agency.

This government understands that small business makes a big contribution to job creation and economic growth in Ontario.

Finally, we are supporting Ontario's domestic film and television industry by proposing to parallel the federal government's 2003 film tax credit changes.

A growth-sensitive tax system

Mr. Speaker, this Budget contains two important new tax initiativ for business—positive changes that would make us more competitive and promote investment.

First, we are proposing to gradually eliminate Ontario's capital ta

This tax—one that businesses must pay whether or not they are profitable—is in effect a tax on investment and job creation.

This important change would be phased in, starting January 1, 2005. It would mean that in 2005, 6,000 more businesses would longer pay capital tax, and by 2012, this tax would be completely eliminated.

Second, we are proposing to change capital cost allowances to allow faster writeoffs on computer and data network infrastructur equipment.

This measure would parallel changes introduced in the federal budget—and it's good news for business.

Ontario's capital tax is widely recognized as a barrier to attracting the investment that Ontario needs to build an innovative economy of high-wage and high-skill jobs. The government proposes to implement a prudent plan to gradually eliminate the capital tax by 2012.

- Starting January 1, 2005, the current $5 million deduction from taxable paid-up capital would increase by $2.5 million each year until the deduction reaches $15 million on January 1, 2008.
- Starting January 1, 2009, capital tax rates would be reduced each year until the capital tax is fully eliminated on January 1, 2012.

VELL-MANAGED GOVERNMENT

he four-year plan

r. Speaker, when we consulted Ontarians, they told us they want vernment to be accountable, transparent and well managed.

hat is why we have based this Budget on a prudent four-year plan.

is the result of more than six months of rigorous review throughout ery ministry in the government.

The directive to each ministry was clear. Programs are to be designed to meet Ontarians' priorities—and they must yield measurable results.

e directive to each ministry was clear. Programs are to be signed to meet Ontarians' priorities—and they must yield easurable results.

the fall, we will be releasing four-year, results-based spending ans for all ministries.

oing forward, our government will report at least twice a year on e progress being made towards meeting our plan.

udgeting for results

ll of this, Mr. Speaker, is part of a new approach: budgeting for sults.

means what we do will be judged by the results we deliver for ntarians.

If a given program doesn't reflect the priorities of Ontarians, delivering satisfactory results for the money that is being spent, we will either find a way to do it better or we will stop doing it altogether.

ntarians know, and we understand, that increased spending alone es not guarantee better results. That is why we will constantly view the programs we fund against the results they deliver.

Multi-Year Balanced Budget Plan ($ Billions)

	Plan	Outlook		
	2004-2005	2005-2006	2006-2007	2007-2008
Revenue*	78.4	79.9	82.5	86.0
Expense				
Programs	66.7	67.2	68.9	70.6
Capital	2.6	2.5	2.5	2.5
Interest on Debt	10.3	10.8	11.1	11.5
Total Expense	79.6	80.5	82.5	84.5
Reserve	1.0	1.5	1.5	1.5
Surplus/(Deficit)	(2.2)	(2.1)	(1.5)	0.0

* Includes one-time revenue gain of $3.9 billion related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

The Change Fund supports one-time expenditures to improve Ontario's public services, reduce long-term costs and mitigate the demand for services.

Change Fund Investments ($ Millions)		
		Plan 2004-05
Investments for Health Care		
Community Health Services—home care and community mental health	140	
Family Health Teams	111	
e-Health Initiatives	78	
Other Projects (including wait lists and workplace safety)	280	
		609
Other Investments		
ServiceOntario Enhancement	27	
College Stabilization	25	
Nutrient Management Financial Assistance Program	5	
All Other	6	
		63
Investments to be Confirmed		328
Total Change Fund Investments		**1,000**

Medium-term fiscal targets between 2004-05 and 2007-08 will be achieved by holding average annual program spending growth to 1.9 per cent.

Medium-Term Program Spending Growth (Per Cent)			
Annual Growth			**Average Annual Growth 2004-05 to 2007-08**
2005-06	**2006-07**	**2007-08**	
0.7	2.6	2.5	1.9

If a given program doesn't reflect the priorities of Ontarians, delivering satisfactory results for the money that is being spent, we will either find a way to do it better or we will stop doing it altogether. And we will be reporting regularly on our progress towards achieving expected results.

Funding change in Ontario

Mr. Speaker, achieving better results from public services will require a transformation in how we deliver those services.

That transformation will require some investment up front.

Community-based health care, for example, will require investment in new technologies and facilities.

To that end, our government is establishing a $1 billion Change Fund.

We asked all our ministries to submit proposals for ways in which the fund could be used to implement one-time changes that will increase efficiency and ensure sustainability. Most of these plans have been approved and form part of this Budget; the remainder will be assessed in the coming months.

Only projects with a sound business case to reduce long-term costs or mitigate the demand for services over the long run will be funded. Any money that is not spent this year will be used to pay down the deficit.

Ontarians' priorities

The clear focus of our plan—reflecting the priorities of Ontarians—is health care and education.

Between 2004-05 and 2007-08, we will restrict program spending to an average growth rate of just 1.9 per cent a year.

In order to ensure that we can fund these core services—while balancing our budget over the course of our mandate—we must hold the line on other spending.

Between 2004-05 and 2007-08, we will restrict program spending to an average growth rate of just 1.9 per cent a year.

That is less than the growth in our revenues; less than the growth of the economy.

ver the same period, the budgets of 15 ministries are either being atlined or decreased.

s of tomorrow, my colleague Gerry Phillips, Chair of Management oard, will begin the process of finding further savings and fficiencies across all of our ministries. He has clear targets:

200 million in 2005-06, $400 million in 2006-07 and $750 million 1 2007-08.

'his Budget proposes to eliminate several tax expenditures, coming ut of our review of the effectiveness of these measures.

Ve are raising fees and charges across a range of services to ensure ey better reflect the true cost of delivering those services.

Ve are also increasing revenue from tobacco taxes as of midnight onight, and alcohol levies as of June 21.

To support the Ontario Tobacco Strategy, the government is taking the second step in its commitment to bring tobacco tax rates up to the national average. The proposal is to increase tobacco tax by $2.50 per carton of 200 cigarettes.

Sample alcohol price increases from levy changes:

- 25¢ per 750ml bottle of spirits
- 15¢ per 750ml bottle of wine
- 15¢ per 4 bottles of coolers (341ml bottles)
- 45¢ per 24 bottles of beer (341ml bottles)

Economic forecast

Mr. Speaker, our four-year plan is based on a prudent and realistic economic forecast.

We must be as certain as possible that our four-year plan is based on assumptions that are realistic.

Ontario's economy is expected to gain momentum in the next few years, continuing to rebound from last year's slowdown.

This growth will bring with it strong job creation and higher incomes.

We are predicting that the economy will grow by 2.3 per cent in 2004, and an average of 3.3 per cent annually from 2005 to 2007.

The private-sector consensus forecast is more optimistic, calling for a faster rate of growth and predicting that by 2005, Ontario will have one of the strongest economies in the advanced industrialized world.

We are being somewhat more cautious in our assumptions, not because we are less optimistic about Ontario's future, but because we carry an important responsibility to the people of Ontario.

We must be as certain as possible that our four-year plan is based on assumptions that are realistic.

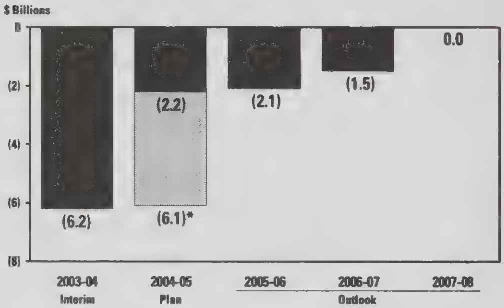
Ontario Economic Outlook Highlights (Annual Average, Per Cent)

	2004p	2005-2007p
Real GDP Growth	2.3	3.3
Unemployment Rate	6.7	5.9
CPI Inflation	1.9	1.9

p = projection.
Average per year for 2005-07 except for the unemployment rate, which is the projection for 2007.

A moderate and sustainable approach to fiscal planning is a priority of this government.

Eliminating the Structural Deficit



* Excludes one-time revenue gain of $3.9 billion related to the projected elimination of the liability for non-utility generator power purchase agreements.

To preserve Ontario's economic health, to protect services that people value, and to put Ontario on a path of fiscal sustainability, the government is committing to a medium-term plan to balance the budget.

Helped by a growing economy and a skilled labour force, Ontario is expected to create 104,000 jobs in 2004. That is an increase of 1.7 per cent over last year.

Over the course of the next four years, the unemployment rate is projected to fall from 7 per cent in 2003 to 5.9 per cent in 2007.

Personal income is expected to increase by 3.4 per cent this year, and will continue to reflect economic growth—rising by 4.5 per cent in 2005, 4.8 per cent in 2006 and 4.9 per cent in 2007.

Balancing the budget

Mr. Speaker, it is within the context of steady growth and prudent management that we have laid out our plan for steady deficit reduction.

The Government of Ontario must balance its books.

As we continue to work through our four-year plan, the deficit will be reduced to $2.1 billion by 2005-06, $1.5 billion by 2006-07 and Ontario's books will be balanced in fiscal 2007-08.

However, trying to force a balanced budget in the short term would require deep spending cuts that would threaten necessary public services.

Leading private-sector economists have confirmed that such drastic measures could threaten the stability of our economy.

By transforming services and by holding program spending growth to less than the rate of growth in tax revenues, we will eliminate Ontario's structural deficit without putting priorities at risk.

Based on our prudent assumptions, and after enacting the measures I am outlining in this Budget, we project a deficit for 2004-05 of $2.2 billion, down from $6.2 billion in 2003-04.

This includes a one-time elimination of the liability from power purchase contracts entered into by the old Ontario Hydro. Those costs would be included in consumer bills over the life of the contracts.

As we continue to work through our four-year plan, the deficit will be reduced to $2.1 billion by 2005-06, $1.5 billion by 2006-07, and Ontario's books will be balanced in fiscal 2007-08.

We have budgeted reserves throughout the course of our plan, to protect against unexpected changes in the economic and fiscal outlook.

The reserve for 2004-05 is $1 billion. To better reflect the uncertainty inherent in longer-range forecasting, we are increasing that figure to $1.5 billion for the years following.

Over the course of our four-year plan, the accumulated deficit as a per cent of GDP is projected to decrease steadily from 25.3 per cent in 2003-04 to 21.9 per cent in 2007-08.

Better asset management

Mr. Speaker, in the months leading up to this Budget there has been ample and colourful speculation about the sale of public assets. The advice I have received has certainly been helpful.

I want to take this opportunity to make the policy of this government crystal clear: we will not sell public assets in order to pay for the ongoing operation of the government. We will not use asset sales to hide deficits.

What we will do is bring the highest of standards to the strategic management of all our public assets.

We are going to undertake a thorough review of major Provincial assets, to evaluate the appropriate role of each asset, and to ensure effective and efficient management.

That review will include the Liquor Control Board of Ontario (LCBO), the world's largest distributor of beverage alcohol. Our purpose will be to determine if Ontarians are receiving the maximum benefit from this very significant Crown agency.

But let me be clear. We will not sell the LCBO, nor will we sell TVOntario to pay for the ongoing operation of government. We're not looking to sell anything.

It is possible that our review may identify assets that are not providing enough ongoing value to Ontarians, but would, if sold, generate substantial revenues that could be used to increase efficiency and promote economic growth.

In that case, we would explore a potential sale on the basis that any revenues generated would be used for the Change Fund.

TRANSPARENCY AND ACCOUNTABILITY

Mr. Speaker, in 1999 the previous parliament passed the *Balanced Budget Act*. It is an Act with laudable objectives but mechanics that are seriously flawed. It does nothing to prevent a government from hiding a deficit from the voters.

I am introducing a replacement—the Fiscal Transparency and Accountability Act (FTAA).

If passed, the FTAA would set a more responsible framework, and would require an independent review of the government's books, before an election.

It would enhance both the quality and credibility of our democracy.

We will also be proposing legislation to amend the *Taxpayer Protection Act* in order to allow revenue measures in this Budget.

Over the next year, we will determine the appropriate role that this type of legislation should play in ensuring real accountability.

If passed, the FTAA would set a more responsible framework, and would require an independent review of the government's books, before an election.

Now, Mr. Speaker, under the terms of the FTAA, there would be no penalty for running a deficit beyond any that the people of Ontario might choose to impose on election day.

However, the law as it currently stands does impose a fine of more than $9,000, to be paid by all cabinet ministers in any government that runs a deficit.

As I have made clear, we have chosen to run a deficit in the short term because it is the right thing to do.

We stand by that decision, and we will pay the fine for this year, beginning June 1.

The money will be used to pay down the deficit.

"I urge the new government to consider legislation dealing with fiscal responsibility. The objective would be to improve accountability through greater transparency in the quality of budgets. This approach would be more effective in ensuring fiscal accountability than legislation that limits government flexibility in responding to fiscal challenges."

Report on the Review of the 2003-04 Fiscal Outlook

Prepared for the Premier of Ontario by Erik Peters, FCA October 29, 2003

CONCLUSION

As I conclude, Mr. Speaker, I want to take a moment to acknowledge the many people who helped make this plan a reality.

I want to thank the Premier, my Parliamentary Assistant, Mike Colle, and my cabinet and caucus colleagues. I want to thank the men and women of Ontario's Public Service and particularly my Deputy Minister and the hard-working staff at the Ministry of Finance.

I want to thank my own family, with love.

> **As Liberals, we understand that society comes together around a core set of needs and goals. It is through government that those goals are reflected, and it is with the help of government that those needs are met. In meeting those needs, we create a civil society.**

But most of all, Mr. Speaker, I want to thank the people of Ontario, for their advice, for their commitment to one another, and to this province.

Mr. Speaker, we are a Liberal government.

As Liberals, we understand that society comes together around a core set of needs and goals. It is through government that those goals are reflected, and it is with the help of government that those needs are met. In meeting those needs, we create a civil society.

The people of Ontario told us that what they need is fundamental change.

Today I have laid out a comprehensive four-year plan to deliver that change.

In education, the people of Ontario will be able to look to smaller class sizes, and increased student achievement.

There will be more doctors and nurses in this province.

Wait times will have been reduced, and there will be more focus on high-quality, around-the-clock, community-based health care.

Our roads and highways will be in better shape, and improved public transit in urban areas will have reduced gridlock.

And four years from now, Ontario's public services will be sustainable.

Four years from now, the people of Ontario will be able to judge our plan by the results it has achieved.

Four years from now, the people of Ontario will be able to judge our plan by the results it has achieved.

And I have every confidence that they will agree...this Plan for Change was the right plan for Ontario.

Thank you, Mr. Speaker.

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Ontario Budget

004

The Plan For Change

The Honourable Greg Sorbara
Minister of Finance

Budget Papers

2004 Ontario Budget

The Plan for Change

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PAPER A

Ontario's Finances

Introduction

After the election in October 2003, the Premier-designate asked former Provincial Auditor Erik Peters to conduct an independent review of the Province's finances. Mr. Peters concluded that Ontario faced a projected deficit of $5.6 billion for 2003-04, excluding potential risks to the fiscal outlook of up to $1 billion that could cause the deficit to worsen by year-end.

The 2003 Economic Outlook and Fiscal Review, released by the Minister of Finance in December, showed that the deficit identified by Mr. Peters was not a one-year anomaly in an otherwise healthy fiscal situation. It was a structural deficit caused by several years of much faster growth in program spending than in government tax revenues. Unless addressed, this fiscal imbalance would lead to continued chronic and unacceptable budgetary deficits over the medium term.

The 2004 Budget addresses the structural deficit inherited from the previous government by putting in place a balanced and responsible approach to deficit reduction over the medium term, while providing funding for necessary programs and services to the public. As part of the government's multi-year fiscal plan, the interim deficit of $6.2 billion in 2003-04 will be reduced to $2.2 billion in 2004-05, $2.1 billion in 2005-06 and $1.5 billion in 2006-07. Ontario's books will be balanced by 2007-08.

With this Budget, the Province will begin to transform Provincial spending on programs and services towards a higher level of fiscal responsibility and transparency, both for financial reporting and planning purposes. This approach is based on the following key principles:

- Fiscal planning should meet the priorities of the people of Ontario. In this Budget, the government sets out a clear multi-year plan to balance the budget and strengthen the services people want and need most. These priorities are success for students, healthier Ontarians, prosperity for people, strong communities and stronger democracy.
- Government should live within its means by aligning spending and revenue. The Province should also use prudent measures such as including a reserve for budgeting to help ensure that a fiscal plan can accommodate unexpected and adverse changes in the economic and fiscal outlook.
- All Provincial spending, ministry plans and activities should produce specific results expected to be achieved over several years.
- Financial planning and reporting should be more transparent. Budgets should openly discuss risks and how the government intends to manage or offset them.

This new approach will help the government create a fiscal plan that is responsible, realistic and sustainable. It will also help to ensure that the people of Ontario better understand fiscal plans and results, while improving upon previous approaches to fiscal planning and management.

In his report, Mr. Peters urged the incoming government to consider legislation that would improve fiscal accountability through greater transparency. In response to Mr. Peters' advice, this government will table the proposed Fiscal Transparency and Accountability Act.

This paper also highlights major sensitivities or risks to the fiscal plan that could occur from unexpected changes in economic conditions or program demands. The fiscal plan includes a reserve to provide protection against such risks. Understanding these risks helps the public and decision-makers better understand potential long-term cost pressures and their implications for the fiscal plan.

The last section of this paper discusses upcoming changes in accounting policies that will have an impact on the Provincial "reporting entity"—that is, the organizations included in the fiscal plan and financial reports of the Province—in the future. These changes reflect new guidelines from the Public Sector Accounting Board, which recommends accounting policies for governments in Canada. The impact of these changes in accounting policies will be to include hospitals, school boards and colleges in the Province's financial statements starting with the 2005-06 Public Accounts of Ontario, and in the subsequent Ontario Budget.

In line with the new approach to fiscal planning and reporting, this paper will provide an overview on:

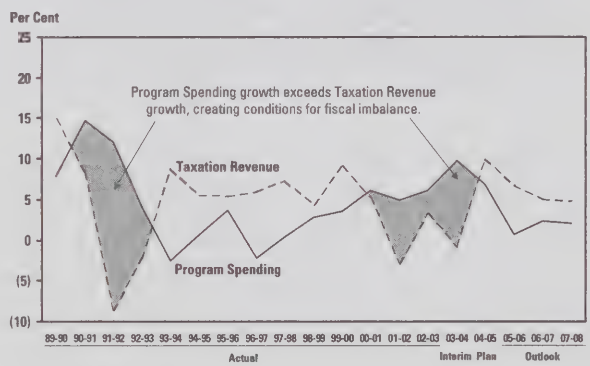
- **Section I**: Planning for Results;
- **Section II**: Medium-Term Plan and Fiscal Outlook;
- **Section III**: Ontario's 2004-05 Fiscal Plan;
- **Section IV**: Interim Performance for 2003-04;
- **Section V**: Potential Risks and Cost Drivers; and
- **Section VI**: Changes in the Reporting Entity.

Section I: Planning for Results

More Responsible and Transparent Fiscal Policy

Between 2000-01 and 2003-04, Provincial program spending increased by 22 per cent, far exceeding tax revenues, which declined by 0.6 per cent during this period. This imbalance between Provincial spending and revenue created a fiscal situation that was not sustainable in the long run and resulted in a structural or permanent deficit, unless further action was taken. While the new government immediately took action to provide a stronger revenue base, this alone could not correct the fiscal imbalance. It was clear that the Province could not simply grow its way out of this structural deficit position.

Taxation Revenue and Program Spending Growth



Source: Ontario Ministry of Finance.

After the surplus recorded in 1989-90, program spending growth significantly exceeded taxation revenue growth in two distinct periods. In both periods, this sizable "gap" between program spending and taxation revenue growth rates signalled the creation of persistent and structural fiscal imbalances.

During the early 1990s, the Province recorded its single largest deficit at $12.4 billion in 1992-93. After nine straight years of deficits, the Province returned to a surplus in 1999-2000. However, starting in 2000-01, program spending growth once again began to outpace taxation revenue growth, gradually creating the conditions for continued future fiscal imbalances that are now observed. Part of this government's plan to eliminate the structural deficit is to gradually bring taxation revenue and program spending growth rates more closely in line, by putting in place a budget process that focuses on results and on reducing long-term cost curves to more affordable and sustainable levels.

Budgeting for Results

The government is committed to delivering measurable improvements in key public services. This Budget represents a first step towards implementing a new approach to planning and budgeting that will significantly improve accountability to the people of Ontario—Budgeting for Results. Governments around the world are developing similar approaches, motivated by the need to know the value-added of any money spent, rather than simply by a need to know how much is spent on a particular program or activity. While amounts of money spent are easy to measure, understanding the meaning of that spending is difficult without additional information. Without such information, it is difficult for the public to hold the government accountable. Budgeting for Results has three main components:

- Clearly setting priorities and measurable results over a medium-term time frame;
- Integrating those results into a planning and budgeting process that considers all of government spending rather than only what is new or different; and
- Consistently monitoring and reporting on the extent of progress against expectations.

For the provincial government, this year in particular will be a learning process and a period of transition towards Budgeting for Results. Measures that can track progress will be developed and relevant targets for achievement will be set. As the planning and budgeting processes evolve to reflect this new approach, the government will present the Budget in ways that better integrate information on resources, results and risks. This type of reporting will better align the expectations and actions of government and its partners in the broader public sector.

Priorities and Key Results

Prior to the development of this Budget, the government engaged the public in an unprecedented consultation process. Through these extensive consultations, important priorities became clearer, as did the approach to developing the results associated with each priority.

Provincial programs must reflect priorities, achieve improved results that can be documented through evidence and, above all, remain affordable. Increased spending alone does not guarantee success for students, healthier Ontarians, prosperity for people, strong communities or a stronger democracy.

Public resources will be focused on achieving clearly defined results associated with these priorities, such as students realizing greater success in literacy and math scores; reduced waiting times leading to healthier Ontarians; higher educational achievement and increased job creation generating prosperity for people; a higher quality of life strengthening the province's communities; and more people actively contributing to their communities, creating a stronger democracy.

Later this year the government will release its first list of results and measures. Budget Paper E, *A More Transparent and Accountable Budget*, provides more details on Budgeting for Results and outlines the government's vision for reforming the budget process to make it more transparent and accountable.

Fiscal Transparency and Accountability Act

In October 2003, former Provincial Auditor Erik Peters released a report on the finances of the Province. His report noted that transparency can be more effective in ensuring fiscal accountability than rigid balanced-budget rules. Other governments, international institutions and public-finance academics have also stressed the connection between transparency and responsible fiscal policy.

The government plans to introduce the proposed Fiscal Transparency and Accountability Act (FTAA). If passed by the Legislature, the FTAA would create a framework for the conduct of sustainable fiscal policy and strengthen the government's reporting requirements. This proposed legislation would require a pre-election report on the Province's finances. For further details on the proposed provisions, please refer to Budget Paper E, *A More Transparent and Accountable Budget*.

Effective and Efficient Government

As a steward of public funds, the government must ensure that the money entrusted to it by its citizens is used in the most effective and efficient way possible. This stewardship role includes ensuring proper fiscal and financial management and continuously reviewing government's activities to ensure their continued relevance to the priorities of government and the key outcomes of importance to the public.

Improving Financial Management Skills

Efficient and trustworthy financial management is a cornerstone of good government. The Modern Controllership initiative led by the Ministry of Finance aims to update key skills in those areas throughout the Ontario Public Service (OPS).

- Since the inception of the Modern Controllership program four years ago, approximately 14,700 days of training have been provided to staff across government in such key areas as accounting, risk management, values and ethics, and integrated decision-making.
- A risk management policy, framework and "how-to" guide were created and are now in use throughout the government.
- In 2004, the implementation of the first release of a new Integrated Financial Information System (IFIS) across government will be completed. IFIS will provide more timely, consistent and useful financial information for planning, budgeting, managing and reporting.

- Accrual-based appropriations commencing with the 2003-04 fiscal year (proposed amendments to the *Financial Administration Act* to provide legislative spending authority retroactive to April 1, 2003 to pay the residual accruals existing at that time will be brought forward).

The 2003 Annual Report of the Office of the Provincial Auditor noted the progress made in improving financial management across the OPS, but also concluded that if the government was to fully realize the return on these investments, it would need to take further steps. In response to this advice and input from ministries, the Ministry of Finance is expanding its training programs, increasing its ability to provide expert advice and making seed money available for specific projects that will build ministries' skills and abilities in financial management.

Better Management of Provincial Assets

The Government of Ontario owns and manages a wide variety of assets on behalf of the people of Ontario. As part of the continuous review of government activities, the government will undertake a review of major Provincial assets to determine whether they are being managed effectively and efficiently and they are providing the maximum return to the citizens of Ontario. This review will ensure that in all cases the public interest is promoted and protected and that the continued role of the government in owning and managing these assets is consistent with the ongoing priorities of the people of Ontario.

The government will review its assets to determine whether:

- Holding ownership of these assets is consistent with the ongoing priorities of government;
- The public interest is adequately protected and promoted; and
- The assets are being effectively and efficiently managed.

Through the consultation process, Ontarians have indicated their desire to retain the Liquor Control Board of Ontario (LCBO) as a government entity given their satisfaction with the service and the annual revenue generated. Ontarians also expect that organizations such as the LCBO be run as effectively and efficiently as possible so that the revenue from the LCBO is maximized and invested in key priorities such as education and health.

In order to ensure that the people of Ontario continue to obtain the best long-term sustainable results from this valuable public asset, the Ministry of Economic Development and Trade, with the support of the Ministry of Finance, will initiate a third-party independent operational review of the LCBO.

The Ministry of Finance will be reviewing the Province's policies and practices related to accounts receivable to ensure that monies owed to the government are collected.

The Ministry of Finance will also improve the efficiency of the government's cash resources, by implementing more standardized cash management practices and through greater use of online banking technologies.

Modernizing Ontario's Systems for Tax Administration

Ontario is determined to be a world leader in tax administration. To achieve this goal, the government will modernize current information systems to deliver state-of-the-art tax administration services. On the service side, the new system will be flexible, efficient and more effective by simplifying, streamlining and integrating processes. Additional service and tax advisory staff will be hired to assist those taxpayers who are making every effort to understand and voluntarily comply with Ontario's tax laws. These service improvements will make it easier than ever to voluntarily comply with Ontario's tax laws.

On the enforcement side, smarter tax processing methods, combined with additional enforcement staff, will improve voluntary compliance by discouraging those taxpayers who base their tax compliance on the perceived risk of being caught. New, more interconnected tax systems will also help the Ministry of Finance to combat the underground economy and those individuals who defy tax laws.

Once implemented, Ontario will have a modern, state-of-the-art tax administration system. Enhanced services will make complying with Ontario's tax laws as easy and convenient as possible, while those who choose not to voluntarily comply will face the full weight of the law. The overall result will be a more level playing field, where everyone pays their fair share.

Section II: Medium-Term Plan and Fiscal Outlook

Medium-Term Fiscal Plan

This government is taking a balanced approach to dealing with the structural deficit—one that recognizes the immediate needs of its public-sector partners and the need to deliver on necessary public services. Trying to force a balanced budget in the short term, through large and indiscriminate spending cuts, would only erode necessary public services. As a result, the government is setting out a clear multi-year fiscal plan to gradually reduce the deficit and eliminate it by 2007-08.

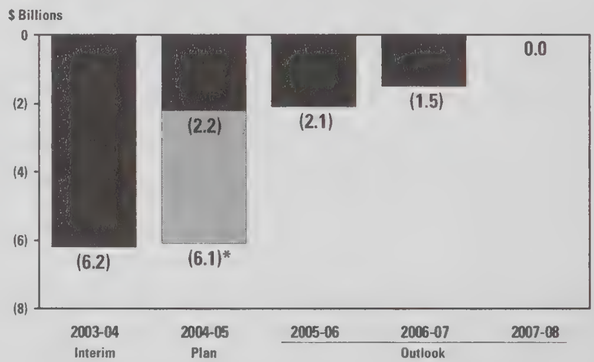
The government's partners in providing vital services to the people of Ontario—hospitals, school boards, universities, colleges and others—need greater financial certainty to plan their activities more rationally. This longer-term plan will allow them to focus on improving the quality of their services while transforming these services to make them sustainable and affordable.

Plan to Eliminate the Structural Deficit

A moderate and sustainable approach to fiscal planning is a priority of this government. To preserve Ontario's economic health, to protect services people value, and to put Ontario on a path of fiscal sustainability and accountability, the government is committing to a medium-term plan to balance the budget. The plan includes steadily declining deficit targets of $2.2 billion in 2004-05, $2.1 billion in 2005-06, $1.5 billion in 2006-07 and a balanced budget by 2007-08. In 2004-05, the deficit target of $2.2 billion includes a one-time revenue gain of $3.9 billion related to the projected elimination of the liability for power purchase agreements with non-utility generators, if the proposed new electricity market structure is passed by the Legislature and is in place.

Over the medium term, the government will be transforming its programs and services to be more accountable, affordable and results based. Through this transformation of government programs and services and by holding program spending growth to less than the rate of growth in tax revenues over the medium term, the government will eliminate Ontario's structural deficit without putting priorities at risk.

Eliminating the Structural Deficit



* Excludes one-time revenue gain of $3.9 billion related to the projected elimination of the liability for non-utility generator power purchase agreements. Further details are included later in this section.
Source: Ontario Ministry of Finance.

Medium-Term Fiscal Outlook

This government faces many challenges to ensure that public services are funded on a sustainable basis, both now and in the future. The broader public sector, including management and unionized and non-unionized employees are being asked to be modest in their expectations around compensation increases. The focus of the government is to achieve clearly defined results for the people of Ontario and this will require transformation in the way public services are delivered.

The following table outlines the current medium-term plan and fiscal outlook for the Province, including details of key revenue sources and planned spending for key sectors through to 2007-08.

This medium-term fiscal outlook incorporates the impacts of all revenue and expense measures introduced in the 2004 Budget and reflects the Ontario economic outlook outlined in Budget Paper B, *Ontario's Economy*.

Medium-Term Plan and Fiscal Outlook ($ Billions)				
	Plan	Outlook		
	2004-05	2005-06	2006-07	2007-08
Revenue				
Taxation Revenue				
Personal Income Tax	18.8	19.9	21.1	22.4
Retail Sales Tax	15.0	15.9	16.9	17.8
Corporations Tax	8.3	8.6	8.9	9.2
Ontario Health Premium	1.6	2.4	2.5	2.6
All Other Taxes	10.2	10.9	11.2	11.5
Total Taxation Revenue	54.0	57.7	60.6	63.5
Government of Canada	10.8	11.6	11.4	11.8
Income from Government Enterprises	3.6	4.1	4.0	4.1
Other Non-Tax Revenue*	10.0	6.4	6.5	6.6
Total Revenue	**78.4**	**79.9**	**82.5**	**86.0**
Expense				
Programs				
Health Care	29.7	30.9	31.9	32.9
Change Fund - Health Care**	0.6	-	-	-
Education	10.6	11.3	11.7	12.0
Training, Colleges and Universities	4.2	4.3	4.3	4.4
Social Services	9.1	9.4	9.6	9.7
Justice	2.9	2.9	2.8	2.8
Other Programs	9.6	8.5	8.6	8.9
Total Programs	**66.7**	**67.2**	**68.9**	**70.6**
Capital	2.6	2.5	2.5	2.5
Interest on Debt	10.3	10.8	11.1	11.5
Total Expense	**79.6**	**80.5**	**82.5**	**84.5**
Reserve	**1.0**	**1.5**	**1.5**	**1.5**
Surplus / (Deficit)	**(2.2)**	**(2.1)**	**(1.5)**	**0.0**

* Includes one-time revenue gain of $3.9 billion related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

** Expense outlook for 2004-05 includes a one-time Change Fund of $1.0 billion, including $0.6 billion to assist with the transformation of the health care sector.

Note: Numbers may not add due to rounding.

Source: Ontario Ministry of Finance.

Revenue

Total revenue in 2007-08 is projected at $86.0 billion, an increase of $7.7 billion or 9.8 per cent over the 2004-05 forecast of $78.4 billion. Apart from $3.9 billion in one-time revenues arising in 2004-05 from the projected elimination of the liability associated with agreements for the purchase of power from non-utility generators, the forecasted growth of revenue between 2004-05 and 2007-08 is 15.5 per cent. Total revenue is expected to grow at 1.9 per cent in 2005-06, 3.3 per cent in 2006-07 and 4.3 per cent in 2007-08.

- Taxation revenue between 2004-05 and 2007-08 is forecast to increase by $9.5 billion, with an average annual growth rate of 5.6 per cent. The average annual projected growth rate of nominal gross domestic product over the period 2005 to 2007 is 5.2 per cent. The maturation of measures proposed in this Budget, particularly the Ontario Health Premium, which would be fully implemented in 2005-06, boosts the growth rate of provincial tax revenues above what would normally be expected given the economic outlook.
- Federal Payments to Ontario are forecast to rise from $10.8 billion in 2004-05 to $11.8 billion in 2007-08, an average increase of 3.1 per cent annually. This projection is consistent with the current federal-provincial transfer arrangements and funding formula.
- Income from Government Enterprises is projected to rise by $0.5 billion between 2004-05 and 2007-08, growing at an average annual rate of 4.8 per cent.
- Other Non-Tax Revenue, which is earned from a wide range of sources, is projected to fall from $10.0 billion in 2004-05 to $6.6 billion in 2007-08. Apart from the one-time revenues included in 2004-05 noted above, the underlying increase in these non-tax revenues is $0.5 billion, an average annual increase of 2.6 per cent.

The revenue outlook incorporates the impact of all measures announced in the *Fiscal Responsibility Act, 2003,* and those proposed in this Budget, including the maturation of the Ontario Health Premium and the annualization and growth expected from all other revenue measures. For more information on revenue measures, see Budget Paper C, *Ontario's Revenue Plan*.

Expense

Over the medium term, total expense will rise by $4.9 billion from $79.6 billion this year to $84.5 billion in 2007-08. Total expense growth will average 2.0 per cent annually over this period, down from the 6.9 per cent rate of growth planned for 2004-05, a transition year as the Province moves to results-based fiscal planning and budgeting. Over this time period the projected operating plans of 15 ministries are either declining or are flatlined.

This slowing of Provincial spending growth over the medium term reflects:

- The maturing of the results-based planning process with improved accountability in Provincial spending;
- A greater realignment of fiscal planning and budgeting to focus on the government's priorities and results; and
- A one-time Change Fund of $1.0 billion established in 2004-05 to facilitate the transformation to results-based planning.

In keeping with the government's strategy of a sustainable fiscal policy and the elimination of the structural deficit, program spending will increase at an average annual rate of 1.9 per cent between 2004-05 and 2007-08, well below projected taxation revenue growth, which will average 5.6 per cent annually over this period.

In order to obtain best value for taxpayers' money, the government will intensify an ongoing program review process starting immediately. This will help to ensure that all Provincial programs achieve desired results and outcomes, and that these programs are delivered in an efficient and cost-effective manner. The expense outlook includes a program review savings target of $200 million in 2005-06, $400 million in 2006-07 and $750 million in 2007-08. These program review targets represent less than 0.3 per cent of total expense in 2005-06 and less than one per cent of total expense at maturity in 2007-08.

Reserve

Reserves of $1.5 billion for 2005-06 and beyond have been included in the medium-term fiscal outlook to protect against unexpected and adverse changes in the economic and fiscal outlook. These reserves have been increased from the $1.0 billion reserve included in the 2004-05 fiscal plan to better reflect the inherent risks and uncertain nature of medium-term fiscal projections. The government will review its policy on reserves in the coming year, to ensure the levels of reserves continue to remain appropriate.

The remainder of this section provides an overview of the medium-term directions and change strategies for key sectors, including health, education, post-secondary education, social services, the electricity sector and municipalities.

Health Sector—Budgeting for Results

Ontario is committed to improving our universal medicare system. The Province will work with health care providers, institutions and federal, municipal and other provincial governments to begin to improve our health care system. The objective is to achieve a health care system that delivers high-quality, results-focused and patient-centred health care to Ontarians where and when it is needed. The performance of the system will be measured based on results, and funding will be targeted to ensure that the results Ontarians want are met, including reduced wait times and access to primary care.

Sustainable health care spending is not about cutting health care spending—that is neither desirable, nor realistic. It is about investing wisely in a system that delivers tangible results in an accountable, efficient and cost-effective manner and that not only focuses on curing illness, but also on health promotion and prevention. Health care costs cannot continue to grow faster than the rate of economic growth over the long term. The Province is devoting an increasing share of its program spending to fund health services. The Ministry of Health and Long-Term Care now accounts for 45 per cent of Provincial program spending. There are many pressures on the health care system such as an aging and growing population, rising utilization for existing services, the costly demand for access to new medical technology, wage settlements and emerging public health threats from an increasingly connected world. This rate of increase is not sustainable, and can only lead to the continued "crowding out" of available funding for other priorities in the future.

Healthier Ontarians

The health of Ontarians is about more than the amount of funding directed to the health care system through the Ministry of Health and Long-Term Care. For many years, academics and governments have been gaining a better appreciation of the importance of a broad range of factors that contribute to the health of populations. Adequate housing, proper nutrition, secure employment, educational achievement, and clean air and water—all of these factors and others play vital roles in creating and sustaining health. These have become known as the broader determinants of health and governments play a key role in shaping them, as well as the delivery of health care services.

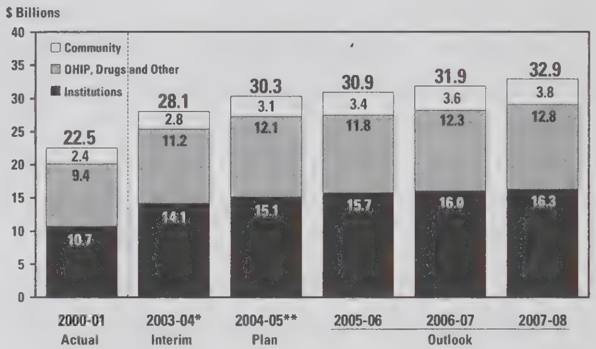
The concept is easy to understand but has profound implications for government. Continued rapid growth in Provincial spending on health care, without changing health care delivery, will not by itself result in healthier Ontarians and will not create a healthier Ontario. As a society, investments must be balanced across the range of health-creating and sustaining activities. Just as the determinants of health are broader than health care, funding for health must be broader than just health care funding. In this Budget the government is beginning to report on investments that support the goal of healthier Ontarians.

Key Change Strategies

Over the medium term, the government will invest in several key change strategies for the health care sector to keep Ontarians healthy and provide the high quality of services Ontarians expect. The health care system will be driven by the needs of patients and be evaluated based on results, not just the amount of dollars spent.

Ontarians want to be able to receive health care in their communities and want a health care system that will help them stay healthy and will care for them when they are ill. Roy Romanow called home care the next essential service. Services that were previously provided in institutions now can often be delivered at home, offering greater dignity and quality of life and, in many instances, be less costly to provide.

Health Operating Spending



* Excludes SARS-related health costs of $628 million and major one-time costs of $214 million.
** Includes $609 million for initiatives funded through the Change Fund in 2004-05.
Note: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance.

The following health care investments are what Ontario can afford within the existing fiscal plan and will provide for a good start in changing the health care system. When additional funds are available from the federal government, further investments will be made to continue the transformation of the sector and to support key health priorities.

Shorter wait times for key services are needed. As reported by Cancer Care Ontario, some cancer patients are waiting 13 weeks or longer to receive radiation treatment. Ontarians wait an average of 24 days for important cardiac surgeries, the second-longest wait time in Canada. *Over the next four years, the government intends to reduce wait times for cancer, cardiac, cataract, MRI/CT and joint-replacement services.* Specific results and outcomes to be achieved include:

- Funding will be provided for an additional 9,000 cataract surgeries each year and for nine new MRI/CT sites by 2005-06. As well, the government plans to increase the number of cardiac services by over 36,000 procedures per year, provide 2,340 additional joint replacements per year, perform 425 extra organ transplants per year and expand dialysis treatments by 529,000 annually by 2007-08.
- Wait time information will be improved by updating the cardiac and cancer radiation registries this year, and in 2005-06, the tracking of information on hip- and knee-joint replacements will be added.

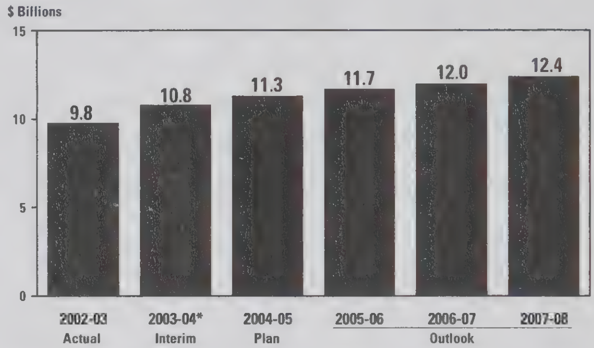
- An Ontario Health Quality Council will be established this year to report annually to the public on how well Ontario's health care system is working. Funding of $1 million in 2004-05, growing to $2 million by 2007-08, will be provided for this initiative.

As a key change strategy for the health care sector, primary care and community-based care will be expanded over the medium term, providing a cost-effective alternative to more expensive institutional care. Specific results and outcomes related to this change strategy include:

- 150 Family Health Teams will be established, composed of physicians, nurse practitioners and other health care providers, that will provide comprehensive primary health care to Ontarians on a 24/7 basis. In 2004-05, an additional $111 million will be provided to support primary care from the Change Fund.
- Community Health Centres (CHCs) will receive a funding increase of $14 million in 2004-05 to enhance primary care delivery at 54 existing CHCs to fund expansion in communities lacking adequate primary care services.
- By 2007-08, enhancements to home care will provide an additional 95,700 Ontarians annually with care in their homes and provide end-of-life care to another 6,000 clients each year. This investment will bring total funding for Ontario's Community Care Access Centres to $1.3 billion in 2004-05, increasing to $1.7 billion in 2007-08.
- $10 million will be provided through a not-for-profit agency to help patients and their families acquire medical equipment for home use.
- Long-term care facilities funding of $2.5 billion in 2004-05 reflects the opening of an additional 3,760 beds this year to facilitate appropriate settings for care, and improvements to the safety and quality of care provided to residents of these facilities. As well, there will be a three per cent increase in the comfort allowance for residents of long-term care facilities.
- Community mental health services will be expanded to serve an additional 78,600 patients annually by 2007-08 and include increased access to case management, crisis response and early intervention services. The Province will be providing $463 million in 2004-05, growing to $583 million in 2007-08, for these services.

While community-based care will increasingly play a key role in the health care system in the future, hospitals will continue to play a significant role. Hospitals have requested multi-year funding. In 2004-05, Ontario's hospitals will receive $11.3 billion in Provincial operating support to ensure that they can continue to provide essential health care services. Over the period from 2003-04 to 2007-08, hospital funding will increase at an average annual rate of 3.4 per cent. By putting more resources into community care and focusing more on prevention, people will be able to leave the hospital sooner, and inappropriate admissions will be avoided. Ontario's hospital system will be able to focus on those with the most acute needs.

Hospital Operating Funding



* Excludes costs of $65 million for one-time special assistance to hospitals.
Source: Ontario Ministry of Finance.

Ontario has developed a good model for treating illness, but it has not had an effective strategy for keeping people healthy. The recent Campbell and Walker reports both indicated that major changes are needed in public health. The government intends to move aggressively to give all Ontarians the resources and support they need to achieve good health. *Focusing on healthy living, illness prevention and health promotion will, in the long run, be the best way to lower cost curves for health care.* Specific results and outcomes to be achieved include:

- The public health system's capacity to better manage infectious disease control will be improved by providing $273 million in 2004-05, growing to $469 million in 2007-08, to increase the share of public health costs covered by the Province from 50 per cent to 75 per cent by 2007. With an initial investment in 2004-05, the Province will begin the restructuring of the public health system, including the creation of an independent public health agency to provide laboratory and epidemiological services and to translate research and information into practical assistance, tools, advice and support to Ontario's health care providers.
- Three new vaccines will be added to the children's immunization program in 2004-05 (for chickenpox, meningococcus and pneumococcus) to reduce the incidence of these preventable diseases at a cost of $156 million over three years.
- The Province will continue to provide all Ontarians with influenza shots in workplace and community settings.
- The government is committed to providing a smoke-free environment in work and public places within three years.

- This year, the government will invest more to promote healthy lifestyles, better medication management and, where appropriate, alternatives to drugs and potentially lower cost drugs for seniors.
- The ability to train high school students in the use of cardiopulmonary resuscitation (CPR) will be enhanced by support to the Advanced Coronary Treatment (ACT) Foundation. Funding to the ACT Foundation, along with private-sector contributions, will allow the foundation to train high school teachers and provide schools with CPR equipment.
- Funding for the Aboriginal Healing and Wellness Strategy will be increased by $5 million to provide additional health and social services.
- The Province will help children from low-income families arrive in class ready to learn by providing an additional $4 million annually to community organizations that provide school-based children's breakfast programs.
- Through the Active 2010 program, the government will promote increased participation in sport and physical activity, particularly for children, youth and low-income individuals.

In the past, the health care system has not made full use of information technology in the delivery of health care services. *The government is implementing e-Health initiatives to use information technology to modernize health care service delivery and help achieve health system integration.* Projects under the e-Health initiative, to be funded through a $78 million Change Fund investment, include:

- Developing a system to provide emergency rooms with electronic access to Ontario Drug Benefit recipients' drug history records.
- Setting standards for information technology in the health system through the Ontario Health Informatics Standards Council.
- Setting up an Electronic Patient Record system in London that will ultimately allow two academic health science centres serving multiple sites to share electronic patient records between health care providers, while protecting patients' privacy.

Ontario is experiencing a shortage of family doctors that currently affects more than 130 communities, including some of the major cities. Work is also underway to create more full-time jobs for nurses and improve their working conditions. *Over the next year, the Ministry of Health and Long-Term Care will work with the Ministry of Training, Colleges and Universities to implement a comprehensive health human resource development strategy designed to increase the supply of highly trained health care professionals.* Specific results and outcomes to be achieved include:

- The Province will more than double the opportunities available to international medical graduates, from 90 to 200 positions. Funded through the Ministry of Health and Long-Term Care, the assessment program will be expanded and the number of postgraduate training positions for

international medical graduates will increase at a cost of $12 million in 2004-05, growing to $25 million in 2007-08.

- The number of clinical education spaces for nurse practitioners will be doubled, from 75 to 150 spaces in three years through an investment of $2 million annually beginning in 2005-06.
- Starting this year, $2 million will be made available each year to support experienced nurses who mentor nursing trainees completing their clinical practice training requirements each year.
- To improve working conditions for nurses and help prevent on-the-job injuries, 12,000 bed lifts for hospitals and long-term care facilities will be purchased and installed, at a cost of $60 million in 2004-05 from the Change Fund.

It has often been difficult to develop and accurately measure outcomes in the health care system. Measures like "quality" are difficult to judge and quantify. Accountability requirements are about initiating a new relationship with health care institutions and providers—a relationship that for the first time ties funding to results, rewards good performance and has consequences for poor performance. *Enhanced accountability within the health care system will ensure that scarce dollars are spent more wisely and must:*

- Align funding to results and outcomes of health services, rather than to inputs, to deliver the highest quality outcomes for Ontarians.
- Ensure efficiency and effectiveness in the delivery of non-core health services such as ordering of supplies for hospitals and other health care providers. An initiative announced in the 2004 Budget called Supply Chain Management in the broader public sector, aims at ensuring efficiency by promoting the integration of the purchasing process and freeing up vital dollars to be spent on key front-line services.

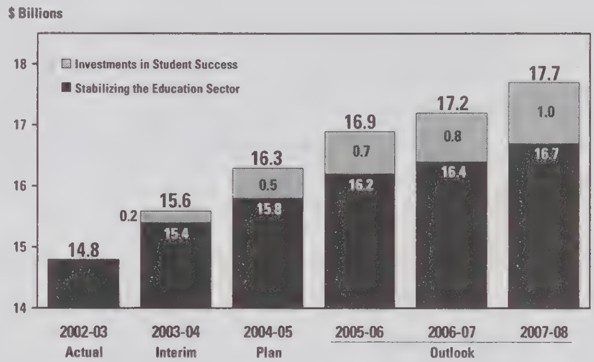
As an alternative to reducing service quality, the government will be discontinuing payment for selected services not mandated under the *Canada Health Act* including optometry for ages 20 to 64, chiropractic services and, with the exception of seniors served through home care and long-term care facilities, physiotherapy services.

Education—Budgeting for Results

The Province is undertaking substantial measures to make Ontario's system of primary and secondary education among the best in the world. The Province will work closely with parents, teachers and school boards to attain measurable improvements in student achievement, particularly in literacy and numeracy.

To ensure that sufficient resources are available to support ongoing improvements in student achievements, Ontario will make substantial investments in student success over the next four years as shown in the accompanying graph and table. These investments in student success are both within the Grants for Student Needs (GSN) allocation and outside GSN for targeted programs, primarily for literacy and numeracy.

Grants for Student Needs (GSN)
(School-Year Basis)



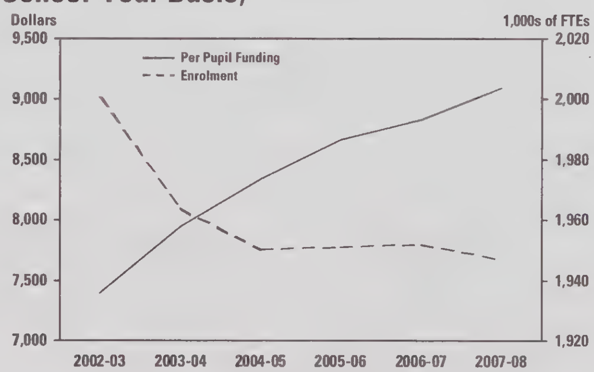
Other Student Success Funding - Outside GSN (Fiscal-Year Basis – $ Millions)				
	2004-05	2005-06	2006-07	2007-08
Targeted Funding	133	250	250	250

In the upcoming 2004-05 school year, Grants for Student Needs will increase by over $650 million including Investments in Student Success. Over the next four years, school board funding will rise by $2.1 billion on a school-year basis, and per-student funding will increase by more than 14 per cent to nearly $9,100 in 2007-08, or over $1,100 per student.

Key Change Strategies

Funding for public education has been limited in recent years, forcing school boards to make difficult choices among competing priorities. In some cases, this has led to insufficient funding for such purposes as maintaining and repairing our schools or for obtaining textbooks and other important learning resources. This environment has contributed to often tense relationships among education partners, and parents have watched as energies were diverted away from the core objective of the education system—supporting student achievement.

Grants for Student Needs
(School-Year Basis)



FTEs = Full-Time Equivalents

In order to focus on improving student results, the Province will follow two closely linked approaches. The first is to stabilize the education system by providing a predictable multi-year funding base. For the upcoming 2004-05 school year, stabilization funding for school boards will increase by more than $400 million. Over the next four school years, this funding will increase by more than eight per cent or $1.3 billion, including a substantial annual fund for school repair and renovation. The Ministry of Education will announce details shortly. This substantial investment will not only ensure that school boards have sufficient funds to meet operating costs, maintain our schools and make available more textbooks and resources, but also provide a platform for improved student achievement.

The second approach is to pursue excellence in education and student success. Province-wide test results for 2002-03 indicate that among Grade 6 students, 56 per cent or fewer met Provincial standards for reading, writing and math. Over the next four years, the government will implement a number of strategies to improve student results in reading, writing and math by age 12. The Province aims to achieve the following results by the 2007-08 school year.

- 75 per cent of students will reach the Provincial standards on province-wide reading, writing and mathematics tests.
- A cap of 20 students per class from junior kindergarten to Grade 3 will be implemented.

To support the achievement of these results, the Province will make Investments in Student Success by enhancing Grants for Student Needs (GSN) to school boards by over $450 million in the 2004-05 school year, growing to over $1 billion by the 2007-08 school year. These funds will be earmarked to implement the cap on class size from junior kindergarten to Grade 3 and to provide additional supports to students who need help the most.

In addition, other student success funding outside GSN will provide $133 million in the 2004-05 fiscal year, annualizing to $250 million in 2005-06, primarily for targeted literacy and numeracy programs. Over the next four years, these funds will be used to:

- Establish a literacy and numeracy secretariat to support teachers and focus efforts in achieving success in reading, writing and math.
- Train 4,000 new teacher specialists, bringing the total to 8,000 teachers trained in best practices and effective techniques for teaching literacy and numeracy.
- More than double, from 42 to over 100, the number of schools that receive extra support to improve learning outcomes. Through this program, "turnaround" teams of experienced teachers and administrators will provide help to schools with consistently below average achievement results.

The Ministry of Education will work with school boards and schools to develop results targets and to monitor achievement. These performance indicators, to be developed with education partners, will be published annually.

It is not sufficient, however, to limit attention only to the primary grades. The system must provide the right supports to enable every student to reach his or her highest possible level of achievement. A recent study suggests that up to 25 per cent of Grade 9 students may leave school without graduating. The 2001 Census indicates that nearly 190,000 (13 per cent) of Ontario's 20- to 29-year-old population had not completed a high school diploma.

The Ministry of Education will work with the Ministry of Training, Colleges and Universities to develop a comprehensive "learning to 18" strategy to increase the number of students staying in school, completing their secondary school studies and going on to training or post-secondary education. To support the development of this strategy, the Province will:

- Support pilot projects intended to bring together community resources to help at-risk youth remain in school and graduate, through funding of $3.5 million over the next four years.
- Promote college education among at-risk high school students by enhancing the School-College Work Initiative by $1 million in 2004-05, annualizing to $2 million in 2005-06.
- Acquire up-to-date equipment for secondary school students pursuing technological education by providing $20 million in 2004-05.
- Provide new academic upgrading and training options for high school leavers by increasing funding through the Ministry of Training, Colleges and Universities by $2 million in 2004-05, growing to $15 million in 2007-08.
- Provide 1,500 $1,000 scholarships annually for high school leavers who return to complete their high school credentials and enter apprenticeships, through funding of $3 million in 2004-05, growing to $4.5 million annually by 2005-06. This initiative also includes a $2,000 signing bonus for employers to encourage them to train these young people as apprentices.

An adequate supply of well-trained teachers is crucial to support the education transformation plan. Therefore, the Province will enhance the number of teacher-training spaces by 1,000 in 2004-05 and 2005-06. This enhancement would augment the 5,700 teachers currently being trained each year and require an additional investment of $15 million over two years.

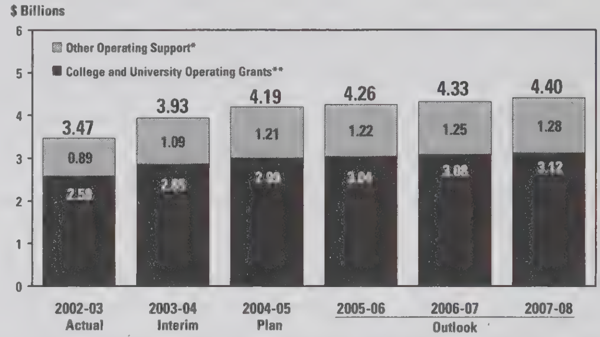
Over the coming weeks, the Ministry of Education will be announcing further details on education funding and on strategies to improve student achievement.

Training, Colleges and Universities—Budgeting for Results

In today's knowledge-based economy, quality education and training programs are needed to help Ontarians reach their full potential. A well-educated and trained workforce provides the economy with a clear competitive advantage.

Colleges and universities play a crucial role in providing the knowledge and skills for Ontarians to succeed. The Province will ensure that Ontario's colleges and universities remain a quality system that ensures access and affordability.

Training, Colleges and Universities
Operating Spending



* Includes other operating grants to colleges and universities; student support; and apprenticeship and training programs.
** Includes tuition fee freeze compensation and one-time funding for college sector stabilization.
Note: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance.

To support post-secondary education and apprenticeship and training programs, the operating spending of the Ministry of Training, Colleges and Universities will increase by $260 million to $4.2 billion in 2004-05. By 2007-08, the Ministry's funding will increase by $470 million, or 12 per cent, compared to 2003-04.

Key Change Strategies

Ontario will work with students, parents and institutions to transform the post-secondary education sector in order to create an accessible, affordable, accountable and quality system. The Province's aim is to increase attendance at post-secondary education institutions and to design a more co-ordinated system with increased specialization and reduced duplication. This will allow students to maximize their learning objectives.

To transform the post-secondary education system, the Province will take the following steps:

- A comprehensive review will be undertaken by former Premier Bob Rae that is aimed at creating a sustainable funding framework for the post-secondary education sector based on effective use of the resources provided by government, students and the private sector.

- Pending the outcome of the review, the following measures will be put in place to enhance accessibility and affordability.
  - Tuition fees will be frozen for two years at 2003-04 levels for all academic programs funded by the Province. Post-secondary institutions will be compensated for costs resulting from the tuition fee freeze.
  - Better access to student financial assistance will be provided for 50,000 students through eligibility reforms that also improve the harmonization of the Ontario and Canada student assistance plans.
  - One-time funding of $25 million will be provided in 2004-05 to help stabilize colleges experiencing financial difficulties and to assist in the transition to a longer-term funding framework. This funding is provided through the Change Fund.

- Capital funding will increase in 2004-05 to ensure there is additional physical capacity to accommodate increased enrolment. The Province is investing $180 million, including $90 million this year, as part of a three-year commitment to create over 21,000 new spaces at four colleges and nine universities.
- The Province will enhance accountability in the sector by implementing the first annual accountability and funding agreements with post-secondary education institutions beginning in 2005-06. These agreements will include multi-year funding and enrolment targets and will link funding to government objectives.

Ontario is facing a shortage of professional health care workers. *Over the next year, the Ministry of Training, Colleges and Universities will work with the Ministry of Health and Long-Term Care to implement a comprehensive health human resource development strategy designed to increase the supply of highly trained health care professionals.*

- The Province will more than double the opportunities available to international medical graduates, from 90 to 200 positions. Funded through the Ministry of Health and Long-Term Care, the assessment program will be expanded and the number of postgraduate training positions for international medical graduates will increase.
- To further ensure that highly skilled health care providers will be available, the number of clinical education positions for nurse practitioners will be doubled from 75 to 150 within three years.
- In addition, the Province will move to increase the number of postgraduate trained nurses needed to fill key faculty positions in schools of nursing by providing $10 million over four years for a Nursing Faculty Fund.
- The Ministry of Health and Long-Term Care will support experienced nurses to mentor nurse trainees completing their clinical practice requirements.

The Ministry of Training, Colleges and Universities will also work with the Ministry of Education to ensure an adequate supply of appropriately trained teachers.

Ontario needs to increase the quality and quantity of skilled labour, including tradespeople. *The Province will transform the training and apprenticeship system by creating a One-Stop Training and Employment system to better serve apprentices, immigrants, unemployed individuals and youth in transition from school to work.* The One-Stop system will streamline and improve access to programs and responsiveness to employers. As part of this strategy, the Province will negotiate a second-generation labour market agreement with the federal government to allow the integration of federal and provincial labour market and training programs. These transformations will improve pathways to training and employment and produce the following results:

- One-stop local planning and delivery services will be established to address labour market needs and help young people make the transition to work.
- The number of new entrants into apprenticeship will increase by 7,000 to 26,000 annually by 2007-08.

The Province will provide new funding of $11.7 million annually by 2006-07 to expand apprenticeship and will propose a new Apprenticeship Training Tax Credit to encourage employers to hire more apprentices.

The Province will take action to remove the barriers faced by internationally trained individuals that prevent them from pursuing their profession or trade. The Province will provide $12.5 million annually by 2005-06 for this strategy, which will include:

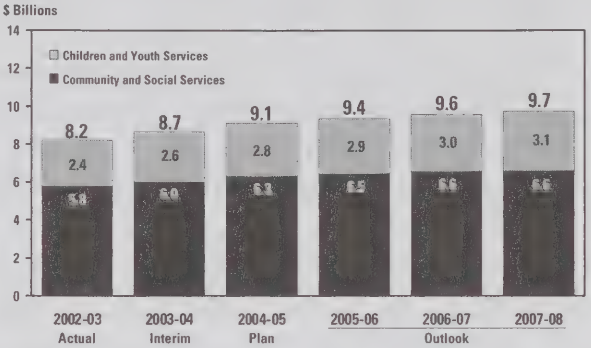
- Working with professional regulatory bodies and employers to increase access and eliminate barriers to credential recognition and job entry.
- Expanding training services to help internationally trained individuals make the transition to Ontario's workforce.
- Improving information on employment opportunities and requirements for individuals considering immigration to Ontario.

Social Services—Budgeting for Results

Strong communities are a key priority for the Province. To support this priority, the government will move to revitalize the social services sector and provide effective and co-ordinated supports for Ontario's children, families and vulnerable people.

Funding for the social services sector, which includes the Ministries of Children and Youth Services and Community and Social Services, will increase by over $1 billion by 2007-08 from the 2003-04 level.

Social Services
Operating Spending



Note: Numbers may not add due to rounding.
Source: Ontario Ministry of Finance.

Key Change Strategies

Programs for children and youth are fragmented and scattered among different Provincial ministries and a wide range of services and supports. Some agencies serving children have been constrained in recent years to the point that services have eroded and service wait times have increased. This complex and inefficient system is difficult for families to navigate through and can often result in poor outcomes as children and youth "fall through the cracks" in the system.

In order to transform children's services, the Province has established the Ministry of Children and Youth Services. Programs for children, formerly dispersed among different ministries, are being consolidated in the new ministry and form the nucleus from which a seamless and rational system of services for children and youth will be built. The aim of this transformation is to ensure that all children and youth have the best opportunity to succeed and realize their full potential.

Over the medium term, the Province will implement strategies to promote strong communities by ensuring that children arrive at school ready to learn and that children are provided the supports they require. First steps in this transition, and key results arising from this strategy, include the following:

- As part of the Federal-Provincial Framework on Early Learning and Child Care, funding will be provided to stabilize the existing regulated child care system and provide child care spaces for pre-school-aged children. In the first year, this will result in an additional 4,000 subsidized child care spaces. This represents an investment of $58 million in 2004-05, growing to $137 million in 2007-08.

- Children's Mental Health Centres provide key community-based supports to help vulnerable children and youth. An investment of $25 million in 2004-05, growing to $38 million in 2007-08, will be provided to revitalize and expand children's mental health programs. This investment, at maturity, will allow children's mental health programs to treat an additional 7,000 children per year.
- The Province will provide a three per cent increase in funding in 2004-05 to agencies that have not received a funding increase in several years, including agencies that provide prevention and early intervention services for children and families at risk. The Minister of Children and Youth Services will provide further details on this initiative.

Services and supports for families and adults have also been constrained in recent years, which has contributed to an increase in homelessness and poverty. *Over the next four years, the Province will improve community supports in order to achieve the following results:*

- Increased involvement in their communities by people having income and shelter stability and increased personal safety.
- An integrated and cost-effective service system for vulnerable adults that increases individual and community self-reliance.

As a first step in this transition, the Province is moving to improve income support programs through the following measures:

- An increase of three per cent in social assistance basic needs and maximum shelter allowances for recipients of Ontario Works and the Ontario Disability Support Program; and
- An increase in the maximum benefit provided to families caring for children with severe disabilities.

In total, these measures will provide an additional $106 million in benefits annually to social assistance recipients. Municipalities will not be required to share the cost of these increases until 2005.

Also, social assistance benefits will not be reduced by the July 2004 increase to the federal National Child Benefit Supplement (NCBS) for one year. This change will provide social assistance recipients with an extra $7 million for the 2004-05 fiscal year.

Over the next year, the Province will examine Ontario's approach to the treatment of NCBS payments to social assistance recipients and decide whether it should be changed or restructured. As well, social assistance programs that provide cash and in-kind benefits for children will be reviewed. If there are better ways to deliver benefits to low-income families and vulnerable children, the government will do so.

In addition to financial assistance, people may also need supports provided by social service agencies. As is the case for children's programs, services for adults are sometimes fragmented and some agencies serving adults have experienced financial constraints that have reduced their ability to deliver effective services. *The Province will transform this sector by ensuring that social services operate on a sound financial base and efficiently support their clients to achieve positive results.* As part of this change strategy, the Province is taking the following actions:

- In order to provide communities with flexibility to align services to better meet local needs, homelessness prevention programs will be streamlined and enhanced by $2 million annually.
- An additional $5 million will be available in 2004-05 to provide a three per cent increase for agencies that have not received a funding increase in several years, including women's emergency shelters and domiciliary hostels. The Minister of Community and Social Services will provide further details on this initiative.
- In order to ensure that families receive the support payments they are entitled to, the Province will invest $40 million over the next four years to improve the ability of the Family Responsibility Office to track down and collect support payments that are in arrears.

The Province will be transforming services for people with developmental disabilities in order to create an accessible, fair and sustainable system of community-based supports. The Province will work with stakeholders to create a plan that will result in more self-reliant individuals and families supported by co-ordinated information, planning and services in their local communities.

The government will introduce legislation that would amend the *Tenant Protection Act.* The current rent control guideline allows landlords uncontested rent increases of two per cent plus an inflation factor. Under the proposed 2005 guideline, the two per cent base amount would be suspended so that rent increases would reflect only the increases in landlords' operating costs.

The government will work with the federal government to increase the number of affordable housing units in Ontario, with a particular focus on appropriate housing for persons suffering from mental illness, victims of domestic violence and the working poor.

Electricity

A secure, stable, efficient and clean electricity system is a cornerstone of a strong, competitive and innovative economy and is fundamental to our quality of life. The electricity sector directly employs more than 40,000 people, and generates sales of about $12 billion.

The Province is the sole shareholder of both Ontario Power Generation Inc. (OPG), which acquired the generating assets of the former Ontario Hydro in 1999; and of Hydro One Inc., which acquired the transmission and distribution assets of the old Ontario Hydro.

The fiscal impact of the performance of the electricity sector since April 1, 1999 reflects the net consolidation of the results of OPG, Hydro One, the Independent Electricity Market Operator (IMO), and Ontario Electricity Financial Corporation (OEFC) into the Province's books. OEFC is the legal continuation of the old Ontario Hydro and has the mandate to manage and retire the debt and certain other liabilities of the old Ontario Hydro. A sustainable electricity system means consumers must pay the true cost of electricity. In the past five years, this has not been the case. Without a significant restructuring of the electricity sector, the taxpayer would be at greater risk of continuing to subsidize electricity prices.

Key Change Strategies

The government plans to introduce legislation in June 2004 to implement its vision for reforming the electricity sector, and if the legislation is passed in the fall, the new market structure is expected to be in place early in the new year.

In addition to the creation of an Ontario Power Authority, responsible for ensuring long-term supply adequacy in Ontario and encouraging conservation and renewable energy, the proposed reforms would result in a combination of a fully regulated and competitive electricity sector, with different electricity generators receiving prices set through a variety of mechanisms. Electricity generated from OPG's nuclear and baseload hydro generation assets would receive regulated prices, and electricity from those generators with existing or new contracts would receive prices as determined by their contracts. A competitive market would set the price received by other generation.

Under the proposed plan, consumers would pay bills that reflect a blend of these costs, including the pass-through of regulated rates for OPG-regulated plants, the full costs for existing and new contracts for generation, and market prices for other plants receiving the market price. For residential and small business consumers, the Ontario Energy Board (OEB) would implement a new standard rate plan in early 2005 that would reflect these blended costs. The standard rate plan would provide more stable prices to consumers, with periodic adjustments to ensure people pay the true cost of electricity over time.

Fiscal Implications of Electricity-Sector Reforms

The 2004-05 and medium-term fiscal outlook are based on the implementation of the government's proposed reforms of the electricity sector, as well as other actions already taken. The main impacts, through consolidation of OPG and OEFC on the Province's books, would be as follows:

- The fiscal cost of the fixed price plan for low-volume and designated consumers would be eliminated with the implementation of an OEB standard rate plan early in 2005. In the interim, on April 1, 2004, the government put into place a pricing structure for electricity for low-volume and designated consumers that better reflects the cost of producing electricity and is not expected to result in a fiscal cost to the Province.
- OPG financial performance should improve over the medium term, reversing the significant negative impact of OPG performance on the Province in recent years. Improvement is expected both as a result of government actions to improve management and board oversight at OPG, and through the move to place a significant part of OPG assets under OEB regulation.
- Consumers would be responsible for paying the full cost of existing and any new contracts for generation. This would eliminate the Province's and OEFC's liability for the above-market portion for about 90 existing power purchase agreements. The fiscal impact would be a one-time revenue gain of $3.9 billion in the year the proposed legislation is implemented. These agreements were entered into by the former Ontario Hydro with non-utility generators located in Ontario. As the legal continuation of the old Ontario Hydro, OEFC is the counterparty to these contracts, which account for approximately six per cent of generating capacity in Ontario. Since market opening, the cost to OEFC of purchasing power under these contracts has been higher than the market price at which OEFC is able to resell the electricity. For example, in 2003-04 OEFC paid $289 million more to purchase power under these contracts than it was able to recover from the sale of this power in the market. Under the proposed electricity-sector reforms, full costs would be passed on to the consumer over the life of the contracts, resulting in the elimination of this liability.

The intent of these proposed changes is to have consumers pay the true cost of electricity, without taxpayers paying part of the cost. The projected impact on the fiscal plan would be that sufficient revenues are received from the electricity sector to pay for the interest on the Province's investment in OPG and Hydro One and to ensure that the debt and other liabilities of the old Ontario Hydro are serviced and retired by the electricity consumer, not the taxpayer.

Strong Communities

The Ontario Government and Ontario's municipal leaders share the responsibility of ensuring safe and vital communities. The Ontario Government will begin a dialogue with municipal leaders in the summer of 2004 that will result in a new partnership between the provincial government and municipalities, including new governance and financial tools. This dialogue is expected to guide provincial and municipal fiscal arrangements over the next four years and into the future.

Key Change Strategies

The government will dedicate two cents of the existing provincial gas tax to municipalities for public transit, beginning with one cent in October 2004. This funding will be increased to 1.5 cents in October 2005, and two cents in October 2006. A distribution formula for this funding will be a subject for consultation in the upcoming dialogue.

The Province will move to assume 75 per cent of the cost of public health by 2007. This will have a positive impact on municipal budgets throughout Ontario, with a large portion of the benefit accruing to Greater Toronto Area (GTA) municipalities. In light of this, the government intends to enter into discussions with GTA municipalities on mechanisms to share the costs of transit and transportation in recognition of the increasingly integrated reliance of GTA residents on their transportation infrastructure.

The Province and the Association of Municipalities of Ontario (AMO) have a Memorandum of Understanding (MOU) that has established a framework for consultation and partnership. The Province will introduce legislation to enshrine this MOU in the *Municipal Act*. The Province will also work with the AMO to undertake a review of the *Municipal Act* to ensure that municipal leaders have the powers and flexibility needed to effectively serve their communities.

The Ontario Government has asked the federal government to establish a federal, provincial and municipal working group to examine options to make municipalities more fiscally sustainable, autonomous and accountable, and to ensure that municipalities have a seat at the table of national change.

Working Together on Shared Challenges

In addition to the cornerstone initiatives noted previously, the Ontario Government is undertaking a wide range of investments and initiatives to support Ontario's municipalities and work in partnership on shared challenges:

- The government will release the first-ever Growth Management Plan for the Golden Horseshoe to maximize the benefits of growth and minimize its costs.
- The Ontario Government will introduce legislation that would establish a Greater Toronto Transportation Authority (GTTA), with a clear mandate to reduce gridlock and ensure the smooth movement of goods and people across the GTA.
- The government will invest $448 million in transit capital, including support for the Toronto Transit Commission, expansion of GO Transit, a bus rapid-transit system for the GTA, and technical studies and environmental assessments for the Ottawa O-Train and Waterloo Region's LRT.
- In 2004-05, Ontario will commit $505 million for municipal and local infrastructure investments.
- The Province is partnering with the federal government to fund municipal infrastructure through the five-year, $900 million Canada-Ontario Municipal Rural Infrastructure Fund (COMRIF). Priority will be given to helping small towns and rural communities improve water quality, upgrade sewage treatment and waste management, fix local roads and repair bridges. The federal and Ontario governments are working closely with the AMO to implement a program that meets local needs.
- The Province will invest over $400 million to support source-to-tap drinking water initiatives, which includes over $250 million in capital funding. A significant portion of this funding will be used to help municipalities bring their water treatment facilities up to the world-class standards set out in the Province's *Safe Drinking Water Act*.
- The government is developing a 10-year strategic infrastructure investment plan for Ontario. The plan will set out investment priorities for all sectors and describe how these investments will be funded.
- The Province will introduce legislation that would affirm the creation of the Ontario Strategic Infrastructure Financing Authority (OSIFA) to provide efficient and affordable financing for public infrastructure priorities and to issue Infrastructure Renewal Bonds that will provide Ontarians with an opportunity to invest in local infrastructure across the province.
- The government has introduced *Planning Act* amendments to limit the role of the Ontario Municipal Board in making planning decisions for communities, and to return those powers to elected municipal governments. The government will seek input from municipalities and the development industry on changes to the *Planning Act*, a revised Provincial Policy Statement and reforms to the Ontario Municipal Board process.

- The government will move forward with proclamation of the outstanding legislative provisions to provide incentives to remediate brownfield sites. The Province will partner with municipalities in a program of matching property tax relief to ensure that these sites are returned to their economic and environmental potential.
- The Province will work with municipalities and other stakeholders to move forward on the commitment to divert 60 per cent of waste from landfills. To complement this initiative, the government is also appointing an expert panel to advise on ways to improve the Environmental Assessment process.
- Early in 2004, the Province announced measures to increase municipal flexibility in managing property tax. The Province will introduce legislation that would further expand municipal options in designing the phase-in of current value assessment-based property tax for businesses. The Province will consult further on measures that would increase municipal options to provide small business protection in property tax.
- The Province will accept the advice of its municipal partners and introduce legislation to revise the valuation date for property assessment, by setting it back by six months to January 1 of the year preceding the taxation year, beginning in 2006. To allow time to work together on enhancing the quality and consistency of property assessments, the next reassessment would be conducted for the 2006 taxation year based on January 1, 2005 property values.
- The government will consult with rural residents and stakeholders across the province to better understand the unique priorities of rural communities and the changes that are needed to improve their economic prosperity, environmental well-being and quality of life.
- The government will introduce a range of initiatives to unlock the economic potential of northern Ontario, including a Northern Ontario Grow Bonds program that would foster small and medium-sized business development and the GO North Investor Program, to market northern Ontario to investors around the world and attract anchor investments to northern communities.

Section III: Ontario's 2004-05 Fiscal Plan

2004-05 Fiscal Summary

In 2004-05, the deficit is forecast at $2.2 billion, a $4.0 billion reduction from the $6.2 billion deficit projected for 2003-04. The 2004-05 fiscal plan includes the impact of a one-time $3.9 billion revenue gain related to the projected elimination of the liability for non-utility generator power purchase agreements.

2004-05 Fiscal Outlook ($ Millions)

	Interim 2003-04	Plan 2004-05	Change	
			$ Millions	Per cent
Revenue*	68,250	78,360	10,110	14.8
Expense				
Programs	62,518	66,695	4,177	6.7
Capital	2,202	2,575	373	16.9
Interest on Debt	9,752	10,329	577	5.9
Total Expense	74,472	79,599	5,127	6.9
Reserve	-	1,000	1,000	-
Surplus / (Deficit)	**(6,222)**	**(2,239)**	**3,983**	**(64.0)**

* Includes one-time revenue gain of $3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

Source: Ontario Ministry of Finance.

- Total revenue in 2004-05 is projected at $78.4 billion, an increase of $10.1 billion from the 2003-04 interim level of $68.3 billion. This increase is primarily due to higher taxation revenues driven by economic growth and the measures proposed in this Budget. The proposed electricity reforms in this Budget increase revenues in 2004-05 by eliminating the liability associated with non-utility generator power purchase agreements.
- Total spending in 2004-05 will increase to $79.6 billion, up $5.1 billion or 6.9 per cent. This increase is primarily due to higher levels of spending on health, education, social services and post-secondary education, as well as additional funding provided through the Change Fund in 2004-05, created to assist key sectors to implement change strategies.

2004-05 Revenue Outlook

Revenue is projected at $78.4 billion in 2004-05, up $10.1 billion or 14.8 per cent from the 2003-04 interim level. Of this increase, $3.9 billion arises from the projected elimination of the liability associated with non-utility generator power purchase agreements. The $4.8 billion increase in taxation revenues is attributable to a growing economy and the revenue impact of measures in the *Fiscal Responsibility Act, 2003,* and proposed in this Budget, including the new Ontario Health Premium.

Revenue by Source ($ Millions)

	Interim 2003-04	Plan 2004-05	Change $ Millions	Change Per cent
Taxation Revenue				
Personal Income Tax	17,778	18,821	1,043	5.9
Retail Sales Tax	14,260	15,036	776	5.4
Corporations Tax	7,222	8,320	1,098	15.2
Ontario Health Premium	-	1,635	1,635	-
All Other Taxes	9,901	10,186	285	2.9
Total Taxation Revenue	49,161	53,998	4,837	9.8
Government of Canada	9,962	10,798	836	8.4
Income from Government Enterprises	3,069	3,564	495	16.1
Other Non-Tax Revenue*	6,058	10,000	3,942	65.1
Total Revenue	**68,250**	**78,360**	**10,110**	**14.8**

* Includes one-time revenue gain of $3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

Source: Ontario Ministry of Finance.

- Personal Income Tax revenue is projected to increase by $1.0 billion (5.9 per cent) to $18.8 billion in 2004-05. This increase reflects the growth in employment (1.7 per cent) and personal income (3.4 per cent) forecast for the Ontario economy in 2004. The growth rate is also boosted by a negative adjustment recorded against 2003-04 revenues for overestimating revenues by $0.5 billion in the 2002-03 Public Accounts of Ontario.
- Retail Sales Tax revenue is projected to increase by $0.8 billion (5.4 per cent) to over $15.0 billion in 2004-05. This increase results from projected growth (3.5 per cent) in Ontario retail sales in 2004, and continued growth in business spending subject to sales tax.

- Corporations Tax revenue is expected to increase by $1.1 billion (15.2 per cent) to $8.3 billion in 2004-05. This increase reflects the growth in corporate profits projected for 2004 (5.8 per cent) and the tax measures taken in the *Fiscal Responsibility Act, 2003*. The growth rate is also boosted by a negative adjustment recorded against 2003-04 revenues for overestimating revenues by $0.4 billion in the 2002-03 Public Accounts of Ontario.
- The proposed Ontario Health Premium is expected to generate $1.6 billion in revenue in 2004-05.
- Revenues from all other taxes combined are expected to increase by $0.3 billion (2.9 per cent) to $10.2 billion in 2004-05. This increase reflects the pace of real economic growth (2.3 per cent) forecast for the Ontario economy and the impact of tax measures proposed in this Budget.
- Federal Payments are expected to increase by $0.8 billion (8.4 per cent) to $10.8 billion in 2004-05. This increase is mainly due to increased health and social transfers.
- Income from Government Enterprises is expected to increase by $0.5 billion (16.1 per cent) to $3.6 billion in 2004-05. This increase is mainly due to improved performance of Ontario Power Generation Inc., which had lower net income in 2003-04 primarily due to a writedown of its coal-fired plants.
- Other Non-Tax Revenue is expected to increase by $3.9 billion (65.1 per cent) to $10.0 billion in 2004-05. This increase is largely due to a one-time revenue gain of $3.9 billion arising from the projected elimination of the liability associated with non-utility generator power purchase agreements.

2004-05 Expense Outlook

The 2004-05 expense outlook at $79.6 billion is up $5.1 billion from the 2003-04 interim outlook of $74.5 billion. Increased spending is concentrated on health care, education, post-secondary education and social services. A total of $1.0 billion is being provided through the Change Fund to facilitate the implementation of change strategies in key sectors.

Expense by Sector ($ Millions)

	Interim 2003-04	Plan 2004-05	Change	
			$ Millions	Per cent
Programs				
Health Care	28,100	29,652	1,552	5.5
Change Fund - Health Care*	-	609	609	-
SARS-related and Major One-Time Health Costs	842	-	(842)	-
Education	9,754	10,623	869	8.9
Training, Colleges and Universities	3,934	4,194	260	6.6
Social Services	8,659	9,149	490	5.7
Justice	2,826	2,907	81	2.9
Other Programs**	8,403	9,561	1,158	13.8
Total Programs	62,518	66,695	4,177	6.7
Capital	2,202	2,575	373	16.9
Interest on Debt	9,752	10,329	577	5.9
Total Expense	**74,472**	**79,599**	**5,127**	**6.9**

* Expense outlook for 2004-05 includes a one-time Change Fund of $1.0 billion, including $0.6 billion to assist with the transformation of the health care sector.

** Includes $1.0 billion Contingency Fund and $0.4 billion Change Fund in 2004-05 expense outlook.

Source: Ontario Ministry of Finance.

- In 2004-05, health care operating spending, excluding $0.6 billion provided through the Change Fund, will be $29.7 billion, an increase of $1.6 billion from the previous year's level of $28.1 billion. Within the health care budget, major areas of spending in 2004-05 include $11.3 billion in operating support to Ontario's 154 hospitals and $7.0 billion in OHIP payments to physicians and other service providers. The remaining $11.4 billion in health care spending will support a wide range of services including drug programs, long-term care facilities, and community and public health services. These investments in community and public services will support transformation of the health care system, leading to lower rates of increase in future funding.

- Ministry of Education operating spending will be $10.6 billion this year, an increase of almost $0.9 billion from the 2003-04 level of $9.8 billion. This includes an increase in School Board Operating Grants (SBOG) of more than $0.7 billion in 2004-05, which represents the Province's fiscal year requirements for the Grants for Student Needs. This increase also includes $0.1 billion in other Student Success funding, provided outside SBOG, primarily to support targeted literacy and numeracy programs.
- Provincial program spending in support of publicly funded post-secondary education institutions, student financial assistance and apprenticeship and training activities, as provided through the Ministry of Training, Colleges and Universities, will increase by $0.3 billion to $4.2 billion in 2004-05. This includes an increase of more than $0.1 billion for Ontario's publicly funded post-secondary education institutions this year. Spending on student financial assistance will also increase by $0.1 billion in 2004-05 including additional costs to enhance Ontario's student loan program.
- In 2004-05, operating spending on social services will be $9.1 billion, an increase of $0.5 billion from last year. This increase includes $0.1 billion to implement an increase in social assistance payments. Programs delivered through the Ministry of Children and Youth Services will increase by $0.2 billion in 2004-05 mainly as a result of enrichments in child care and children's mental health programs.
- The Justice sector, comprising the Ministry of the Attorney General and the Ministry of Community Safety and Correctional Services, will have operating spending of $2.9 billion in 2004-05.
- In 2004-05, spending on all other Provincial programs will be $9.6 billion. This level includes a Management Board Contingency Fund of $1.0 billion that contains funding for government-wide initiatives not yet allocated to ministries, pending further details and/or justification.
- In addition, a $1.0 billion Change Fund is included in the 2004-05 fiscal plan for transformation initiatives that demonstrate an improvement in results and outcomes. Of this amount, $0.6 billion has been allocated to the Ministry of Health and Long-Term Care, with the remainder intended for other sectors. Full details of the Change Fund are provided in the following pages.
- Ontario's planned capital expense for 2004-05 is $2.6 billion, which includes $1.5 billion in capital transfers to municipalities, hospitals, universities, colleges and other transfer recipients; $0.3 billion for repairs, rehabilitation and other capital investments; and $0.8 billion for amortization costs for major Provincial tangible capital assets (mainly highways and buildings).
- Interest on debt in 2004-05 is forecast at $10.3 billion, up from the previous year by $0.6 billion, reflecting the costs associated with increased borrowing requirements.

Change Fund

The 2004 Budget includes a one-time $1.0 billion Change Fund that will support the government's plans to change and improve Ontario's public services. The Fund will help to pay for projects that rationalize or better integrate existing programs and services, to put in place new systems and processes to reduce long-term costs, or to mitigate the demand for services over the long run.

Change Fund investments are intended to cover one-time costs in 2004-05 only; any additional support, if required, will be determined as part of the 2005-06 Budgeting for Results process. Of the $1.0 billion allocated for the Change Fund, more than $600 million is to be provided to the Ministry of Health and Long-Term Care to assist with its transformation agenda. The remaining funding has been, or will be, distributed to other ministries that can provide an acceptable business case for their proposed projects.

The following table highlights key investments funded through the Change Fund in 2004-05.

Change Fund Investments
($ Millions)

		Plan 2004-05
Investments for Health Care		
Community Health Services—home care and community mental health	140	
Family Health Teams	111	
e-Health Initiatives	78	
Other Projects (including wait lists and workplace safety)	280	
		609
Other Investments		
ServiceOntario Enhancement	27	
College Stabilization	25	
Nutrient Management Financial Assistance Program	5	
All Other	6	
		63
Investments to be Confirmed		328
Total Change Fund Investments		**1,000**

Source: Ontario Ministry of Finance.

Investments for Health Care

- A number of projects will be undertaken, designed to facilitate transformation in the health care system, including developing and expanding wait list registries for cardiac services, cancer radiation and hip- and knee-joint replacements, as well as improving workplace safety for nurses by purchasing 12,000 bed lifts for hospitals and long-term care facilities. The Change Fund will make a $280 million investment in these projects.
- Services previously provided in institutions can now often be delivered at home, offering greater dignity and quality of life, and in many instances be less costly to provide. Home care will be expanded to service 21,400 additional Ontarians and access to community mental health services will be extended to a further 13,650 people through a Change Fund investment of $140 million in 2004-05.
- 150 Family Health Teams will be established, composed of physicians, nurse practitioners and other health care providers, that will provide comprehensive primary health care to Ontarians on a 24/7 basis. The Change Fund will contribute $111 million to primary care initiatives.
- e-Health initiatives refers to using information technology to modernize health care service delivery and to achieving health system integration. A variety of e-Health projects will be supported through the Change Fund this year including providing emergency rooms with electronic access to the drug history records of Ontario Drug Benefit recipients; and setting standards for health information technology through the Ontario Health Informatics Standards Council. The Change Fund will provide $78 million for e-Health initiatives in 2004-05.

Other Investments

- The ServiceOntario initiative will improve the delivery of government services to the public by allowing access to government services by telephone, the internet or in person. In addition, operational efficiencies will be realized by consolidating existing offices and co-locating where feasible, with other levels of government. The Change Fund is investing $27 million this year to support ServiceOntario enhancements.
- Pending the results of the post-secondary education review, one-time funding of $25 million will be provided in 2004-05 to help stabilize colleges that are experiencing financial difficulties and enable them to transition to a longer-term funding framework.
- The Nutrient Management Financial Assistance program will help farmers pay the costs associated with becoming compliant with the *Nutrient Management Act*. The government has allocated $20 million over the next two years for this initiative, with first-year funding provided through the Change Fund.

The remaining $328 million in the Change Fund will be allocated early this fiscal year, following a review of business case plans to ensure projects demonstrate such benefits as good value for money; improved quality or delivery of public services; improved cost efficiency or result in cost savings in the long run. As Change Fund projects are reviewed and approved during the fiscal year, these will be detailed and reported in the quarterly Ontario Finances.

Any unallocated amounts remaining in the Change Fund at year-end will be applied to reduce the deficit.

Investments for Healthier Ontarians

The government is committed to ensuring a health care system that is sustainable and delivers high-quality, results-focused and patient-centred health care to Ontarians where and when it is needed. Programs and services that support healthier Ontarians are delivered through many ministries including Health and Long-Term Care; Children and Youth Services; Environment; Training, Colleges and Universities; and others. Altogether, the government will increase spending for programs contributing to healthier Ontarians by $2.4 billion in 2004-05. The table below illustrates increases in programs that contribute to healthier Ontarians.

Year-over-Year Increases in Programs Contributing to Healthier Ontarians ($ Millions)		Increase 2004-05
Ministry of Health and Long-Term Care		
• Long-Term Care Facilities—reflects opening of an additional 3,760 beds to facilitate appropriate settings for care; and improvements to the safety and quality of care of the residents of these facilities	406	
• OHIP—expansion of family health teams and to fund utilization increases in OHIP insured services	272	
• Ontario Drug Programs—utilization growth	193	
• Home Care, Community and Mental Health Services—increase in funding to provide home care to an additional 21,400 Ontarians and support an additional 13,650 mental health clients in their communities	182	
• Public Health Services—improve systems capacity to manage infectious disease control, add three new vaccines to the children's immunization program, and implement a comprehensive tobacco strategy	165	
• Health human resource strategies—initiatives to increase the supply of physicians, nurse practitioners and nurses and to purchase 12,000 bed lifts to improve working conditions for nurses	108	
• Wait Time Registries and e-Health Initiatives—aimed at using information technology to modernize health care service delivery and to help achieve health system integration	97	
• Hospitals—increase in Provincial operating support for the continuation of essential health care services	470	
• Other health care services including increases for cancer care and ambulance services	268	
		2,161

Year-over-Year Increases in Programs Contributing to Healthier Ontarians (continued) ($ Millions)		
		Increase 2004-05
Ministry of Children and Youth Services		
• Children's Mental Health—enhance community-based programs serving children at risk		25
Ministry of Community and Social Services		
• Ontario Drug Benefit Plan—utilization growth		42
Ministry of Environment		
• Clean Water Programs—Safe Drinking Water program, Watershed-Based Source Protection program, and nutrient management standards, implementation and compliance activities	52	
• Capital Clean Water Programs—includes Watershed-Based Source Protection program, and investments in nutrient management to support the implementation of standards	8	
		60
Ministries of Municipal Affairs and Housing/Northern Development and Mines		
• Millennium Partnerships Initiative—water and wastewater projects		21
Ministry of Natural Resources		
• Operating Programs—Watershed-Based Source Protection program	26	
• Capital Programs—Watershed-Based Source Protection program and surface water monitoring	6	
		32
Ministry of Training, Colleges and Universities		
• Medical and Nurse Education—increase funding to support increased enrolment in medical schools and collaborative nursing education programs		16
Ministry of Tourism and Recreation		
• Active 2010—promotes increased participation in sports and physical activity, particularly for children, youth and low-income individuals		3
Total Increase in Funding		**2,360**

Sources: Ontario Ministry of Finance and Ontario Ministry of Public Infrastructure Renewal.

To ensure that there will be funding, both for health care and for other health enhancing priorities, the government will introduce proposed legislation to create the Ontario Health Premium to support a $2.4 billion increase in funding for the programs that contribute to healthier Ontarians this year.

Support for Health Care, the Ontario Trillium Foundation and Communities

Provincial proceeds from gaming activities continue to support Provincial priorities, including the operation of hospitals, charities, communities and the agricultural sector.

Support for Health Care, Charities, and Problem Gambling and Related Programs ($ Millions)		
	Interim 2003-04	Plan 2004-05
Lotteries, Charity Casinos and Slot Machines at Racetracks Revenue		
Operation of Hospitals	1,499	1,474
Ontario Trillium Foundation	100	95
Problem Gambling and Related Programs	21	36
Commercial Casinos Revenue		
General Government Priorities	480	512
Total	**2,100**	**2,117**

Sources: Ontario Ministry of Economic Development and Trade and Ontario Ministry of Finance.

Revenue from Lotteries, Charity Casinos and Slot Machines at Racetracks

The *Ontario Lottery and Gaming Corporation Act, 1999,* requires that net Provincial revenue generated from lotteries, charity casinos and racetrack slot machines support services such as the operation of hospitals, problem gambling and related programs, and funding for charitable organizations through the Ontario Trillium Foundation.

- In 2004-05, it is estimated that $1,474 million in net revenue from lotteries, charity casinos and slot machines at racetracks will be applied to support the operation of hospitals.
- The Ontario Trillium Foundation has become one of Canada's largest grant-making foundations. In 2004-05, the Ontario Trillium Foundation will be provided with $95 million (to be supplemented with $5 million from the Ontario Trillium Foundation reserve for a total of $100 million) to help build strong and healthy communities by contributing to charitable and not-for-profit organizations.
- Two per cent of gross slot machine revenue, estimated at $36 million for 2004-05, is allocated to programs that support problem gambling and related treatment, prevention and research programs.

Benefits from Commercial Casinos

- In 2004-05, net Provincial revenue from commercial casinos estimated at $512 million will be used to support general government priorities including health care, education and social programs.
- Since the commencement of commercial casino operations, 27,000 direct and indirect jobs have been created in Ontario. Commercial casino operations and the additional tourists they attract contribute an estimated $2.4 billion annually to the Ontario economy.

Other Beneficiaries of Charity Casinos and Slot Machines at Racetracks

Support for the Agricultural Sector and Municipalities ($ Millions)		
	Interim 2003-04	Plan 2004-05
Agricultural Sector	308	299
Municipalities	75	75
Total	**383**	**374**

Source: Ontario Ministry of Economic Development and Trade.

- Twenty per cent of gross revenue from slot machines at racetracks is provided to promote the economic growth of the horse-racing industry. Since 1998, this initiative has preserved and enhanced over 60,000 jobs in Ontario's horse-racing industry, providing over $1.1 billion to a key component of the Province's agricultural sector. For 2004-05, additional support is estimated at $299 million.
- A portion of gross slot machine revenue estimated at $75 million in 2004-05 will be provided to municipalities that host charity casinos and slot operations at racetracks, to help offset local infrastructure and service costs.

Infrastructure Overview

Infrastructure is the foundation, literally and figuratively, for the next wave of economic and population growth in Ontario.

Investment in infrastructure raises our standard of living through its impact on productivity and by enabling the provision of public services that improve our quality of life. Every additional $1 million invested in public infrastructure generates approximately $200,000 in annual cost savings to Ontario businesses. Similarly, in the public sector, investment in infrastructure can raise the quality and efficiency of health, education and other public services.

Ontario already has public infrastructure worth more than $250 billion. However, over the last two decades, public infrastructure growth has significantly lagged economic growth. At the same time, most of the infrastructure built for the baby boom is reaching the end of its useful life and needs to be renewed or replaced.

To help meet the infrastructure challenge, the government established a new Ministry of Public Infrastructure Renewal. The Ministry is responsible for the strategic management of the government's capital investment plan, including investments in the Province's own assets and transfers for capital purposes to hospitals, municipalities, post-secondary institutions and other transfer recipients.

The government is also committing to develop a 10-year strategic infrastructure investment plan to guide our future investment decisions. The plan will identify long-term investment priorities in key sectors such as water and wastewater, transportation, health, justice, schools and post-secondary education.

The way we live tomorrow depends on how we plan and grow today. That is why the government is developing a growth management plan, starting with the Golden Horseshoe—the largest urban region in Canada. The plan will help us grow in the right way—by investing in infrastructure to support growth areas and by protecting the areas that provide our food, water and recreation. The government will be releasing the first growth management plan for the Golden Horseshoe region in the coming months.

Gross Capital Investments ($ Millions)		
		Plan 2004-05
Transportation		1,546
Highways	992	
Transit	448	
Other Transportation	106	
Health and Long-Term Care		346
Post-Secondary Education		175
Environment		346
Water	257	
Other	89	
Municipal and Local Infrastructure		505
Justice		97
Other (Net)		328
Total Gross Capital Investment		3,343
Less: Net Investment in Capital Assets*		**768**
Total Capital Expense		**2,575**

* Table A5 in the appendix of this Paper includes the details pertaining to Net Investment in Capital Assets.

Note: Total gross capital investment includes $359 million in flow-through funds (Infrastructure revenue on a PSAB basis is $267 million): $89 million for Transportation, $103 million for Environment, and $167 million for Municipal and Local Infrastructure. Gross capital investment excluding flow-through funds is $3.0 billion.

Source: Ontario Ministry of Public Infrastructure Renewal.

In 2004-05, the government will invest approximately $3.3 billion in Ontario's infrastructure.

- Through the Ministry of Transportation and the Ministry of Northern Development and Mines, the Province will invest $992 million in highway rehabilitation and expansion in 2004-05. The Province will also provide $448 million in transit to expand GO Transit services; develop the new Bus Rapid Transit system in the GTA; undertake technical studies and environmental assessments for the Ottawa O-Train and Waterloo Region's LRT; begin York Region's Quick Start program; and renew municipal transit fleets across the province. In addition, Provincial support for the TTC will include funding to undertake an environmental assessment for the possible future expansion of the Spadina subway to York University.

- The Province will introduce proposed legislation to create a Greater Toronto Transportation Authority (GTTA) to co-ordinate transportation investment and planning in the GTA. The GTTA would have a mandate to reduce gridlock and ensure the smooth movement of goods and people across the GTA by creating an integrated transportation system for the region.
- The Ministry of Health and Long-Term Care will invest $346 million in health care infrastructure in 2004-05 to help reduce wait times and improve health care services. This investment will expand and modernize hospitals, long-term care facilities and community care facilities across the province.
- This year the Province is investing $175 million in post-secondary education capital. This funding includes $107 million for expansion projects to create new spaces at Ontario's universities and community colleges, including a new Northern Ontario Medical School. It also includes $20 million for the Apprenticeship Enhancement Fund and the College Equipment and Renewal Fund to enable colleges to acquire more up-to-date equipment and learning resources, and $40 million for the Facilities Renewal Program.
- Environmental investment, including safe drinking water infrastructure, will be $346 million in 2004-05. The government will invest $257 million in clean water capital projects, including $222 million for municipal water and wastewater infrastructure, $28 million for upgrades to drinking water systems in Ontario Parks and $7 million for watershed-based source protection and other water quality measures. The other environmental capital investment consists of natural resource management infrastructure, environmental land acquisition, environmental cleanup projects and upgrading Conservation Authority dams.
- The Province is committed to working with the federal government and municipalities to improve municipal and local infrastructure. In 2004-05, the Province will invest $505 million in municipal and local infrastructure, including $167 million in federal flow-throughs. This includes the Affordable Housing Program, the new Canada-Ontario Municipal Rural Infrastructure Fund, the Northern Ontario Heritage Fund, the Toronto Waterfront Revitalization initiative, the Millennium Partnerships' strategic investments in urban areas outside the GTA (non-water), the Ontario Small Town and Rural infrastructure initiative (non-water), the Sports, Culture and Tourism Partnerships initiative, as well as other smaller capital investments.
- Investment of $97 million in the justice sector in 2004-05 is to complete current court and correctional projects, including initiatives to address court backlogs, and to undertake various repair and rehabilitation projects.
- The capital plan includes other initiatives totalling $328 million, including technological education equipment, developmental services, biotechnology and R&D infrastructure programs, and other capital programs. As part of these initiatives, the Province will take the first steps needed to establish a new GTA Youth Centre to replace the Toronto Youth Assessment Centre.

Ontario Strategic Infrastructure Financing Authority

The government is creating the Ontario Strategic Infrastructure Financing Authority (OSIFA) as an innovative financing vehicle that can be used by the broader public sector to renew and build critical public infrastructure assets. This vehicle also provides the federal government with an opportunity to partner with Ontario.

Renewing Ontario's public infrastructure improves the quality of public services and helps build a strong and prosperous economy.

OSIFA Infrastructure Renewal Loan Program

OSIFA will develop and implement an infrastructure renewal loan program that provides efficient and affordable financing to meet critical municipal, health, education and housing infrastructure priorities. OSIFA is based on a proven "pooled financing" concept that aggregates the infrastructure investment needs of many borrowers into one borrowing pool. OSIFA will provide access to infrastructure capital that would not otherwise be available to smaller borrowers. Larger borrowers will benefit from significant savings on transaction costs such as legal costs and underwriting commissions. Under the OSIFA approach, all borrowers will receive the same low interest rate.

OSIFA's 2004-05 infrastructure renewal loan program will be focused on Ontario's municipalities, aiming to offer affordable infrastructure financing for five key municipal priorities: clean water infrastructure, sewage treatment facilities, waste management infrastructure, municipal roads and bridges, and public transit.

The government wants to ensure that borrowers eligible for OSIFA's loan program represent the full scope of needs within the broader public sector. Therefore, along with Ontario municipalities, the OSIFA infrastructure renewal loan program will include hospitals, municipal long-term care facilities, colleges, universities, school boards and affordable housing providers.

In the coming months the Ministries of Finance and Public Infrastructure Renewal will consult with representatives from line ministries and key stakeholders to design the program parameters for broader public-sector borrowers. These parameters for the OSIFA infrastructure renewal loan program will be announced later this year.

Infrastructure Renewal Bonds

OSIFA will offer a new financial instrument called Infrastructure Renewal Bonds (IRBs) to institutional and individual investors. OSIFA will use the proceeds from the sale of IRBs to fund its infrastructure renewal loan program.

IRBs will be attractive to large institutional investors such as pension funds and insurance companies. They will offer an investment that is backed by the credit strength of municipal, hospital, educational and other public-sector borrowers. These bonds will provide local investors with a solid investment for their families and an opportunity to invest in local infrastructure. The first issue of IRBs will take place later this year.

Section IV: Interim Performance for 2003-04

2003-04 Interim Performance

The interim outlook for 2003-04 forecasts a deficit of $6,222 million, up $601 million from the $5,621 million deficit reported in the 2003 Ontario Economic Outlook and Fiscal Review ("Fall Outlook"). This deterioration is mainly due to in-year revenue declines of $1,282 million from lower tax revenues and the writedown of Ontario Power Generation coal-fired plants, partially offset by lower interest on debt charges and year-end underspending.

2003-04 In-Year Fiscal Performance ($ Millions)

	Fall Outlook*	Interim	In-Year Change
Revenue	69,532	68,250	(1,282)
Expense			
Programs	62,554	62,518	(36)
Capital	2,574	2,202	(372)
Interest on Debt	10,025	9,752	(273)
Total Expense	75,153	74,472	(681)
Surplus / (Deficit)	**(5,621)**	**(6,222)**	**(601)**

* As presented in the 2003 Ontario Economic Outlook and Fiscal Review.
Source: Ontario Ministry of Finance.

- Revenue is estimated to be $1,282 million below the Fall Outlook projection. This shortfall is mainly due to lower revenues from Personal Income and Retail Sales Taxes, Hydro Successor Corporations and lower federal government payments resulting largely from delays in infrastructure projects.
- Total expense is $681 million below the projected Fall Outlook level, mainly due to lower interest on debt charges and year-end operating and capital underspending across government programs, partially offset by increased in-year funding requirements for hospitals.

In-Year Revenue Performance

Total revenues in 2003-04 are estimated to be $68,250 million, $1,282 million below the Fall Outlook projection.

Summary of In-Year Changes to Revenue in 2003-04 ($ Millions)		
		Interim 2003-04
Taxation Revenue		
Personal Income Tax	(822)	
Retail Sales Tax	(290)	
All Other Taxes	326	
		(786)
Government of Canada		
Infrastructure-related Federal Payments	(251)	
Other Federal Payments	(51)	
		(302)
Income from Government Enterprises		
Hydro Successor Corporations	(333)	
Other Government Enterprises	(32)	
		(365)
Other Revenue		171
Total In-Year Revenue Changes		**(1,282)**

Source: Ontario Ministry of Finance.

- Personal Income Tax (PIT) revenues are estimated to be $822 million below projection. This is due to weaker final 2002 PIT assessments and lower wages and salaries growth.
- Retail Sales Tax revenues are $290 million below projection. This is consistent with weaker growth in retail sales.
- Revenues from all other taxes combined are $326 million above projection. This is mainly due to record-setting levels of Preferred Share Dividend Taxes assessed for 2002 and recorded as revenue in 2003-04. Land Transfer Tax revenues also came in well above projection as the Ontario housing market continued to surpass forecasts.
- Federal payments for infrastructure projects are $251 million below projection due to delays in finalizing contracts among the federal, provincial and municipal governments.

- All other federal payments combined are $51 million below projection. This is mainly due to a negative adjustment recorded against 2003-04 Canada Health and Social Transfer revenues for overestimating revenues by $75 million in the 2002-03 Public Accounts of Ontario.
- The combined net income from Hydro One Inc. and Ontario Power Generation Inc. (OPG) is $333 million below projection. This is mainly due to lower net income from OPG, which reflects the writedown in the value of its coal-fired plants in 2003-04 that lowered net income by $473 million.
- The combined income of all other government enterprises is estimated to be $32 million below projection. This is mainly due to increased pension expenses for the Ontario Northland Transportation Commission related to its early-retirement offer.
- Other revenue is estimated to be $171 million above projection. This is mainly due to higher net revenues consolidated from the Ontario Realty Corporation.

In-Year Expense Performance

Total expense for 2003-04 is $681 million below the level of $75,153 million projected in the 2003 Economic Outlook and Fiscal Review.

Summary of In-Year Expense Changes in 2003-04 ($ Millions)		
		Interim 2003-04
Program Expense Changes:		
Hospitals—additional operating costs	310	
Partially offset from the Contingency Fund	(215)	
OHIP Utilization and Primary Care Information Technology	208	
Pension Benefits Guarantee Fund—Algoma Retiree Pension Plans	162	
Fully offset from the Contingency Fund	(162)	
Power Purchases— lower volumes of electricity required	(119)	
Teachers' Pension Plan—lower benefit costs and better-than-expected return on pension plan assets	(105)	
Other (Net)	(115)	
Total Program Expense Changes		**(36)**
Capital Expense Changes:		
Municipal Partnership Initiatives—delay in concluding agreements	(179)	
Health programs—construction delays	(149)	
Justice programs—project completion delays	(14)	
Other (Net)	(30)	
Total Capital Expense Changes		**(372)**
Interest on Debt Change		**(273)**
Total In-Year Expense Changes		**(681)**

Sources: Ontario Ministry of Finance and Ontario Ministry of Public Infrastructure Renewal.

Operating Expense Changes

- Transfers to hospitals increased by $310 million in-year to cover additional operating costs, partially offset by $215 million from the Contingency Fund. The Province and hospitals will be entering into new accountability agreements to better link Provincial funding to the achievement of results.

- OHIP payments to physicians and other practitioners increased in-year by $208 million. This increase was primarily due to increased utilization of physicians and other practitioners, as well as additional funding provided for the Primary Care Information Technology program.
- The government provided a 30-year interest-free loan of $330 million in-year to the Pension Benefits Guarantee Fund. The $330 million will be transferred to the pension plans for Algoma Steel retirees, and used to settle pension obligations through the purchase of annuities from insurance companies to provide pension benefits. The cost to the Province of this loan is the interest foregone at market rates, in the amount of $162 million, which was fully offset from the Contingency Fund.
- In-year savings of $119 million for power purchases were realized mainly due to lower-than-expected volumes of electricity purchased by the Ontario Electricity Financial Corporation from non-utility generators.
- Teachers' Pension Plan expense is $105 million lower than the Fall Outlook projection, mainly due to $67 million in lower benefit costs projected for the current period and a $30 million higher amortization of experience gains resulting from a better-than-expected return on pension plan assets.
- Interest on debt charges were $273 million below the Fall Outlook projection due to lower-than-expected interest rates and cost-effective debt management.

Capital Expense Changes

- Municipal partnership program investments (including Affordable Housing, Toronto Waterfront Revitalization, Millennium Partnerships, Ontario Small Town and Rural Infrastructure, and Sports, Culture and Tourism Partnerships) were $179 million less than anticipated due to delays in finalizing contracts for certain projects.
- Health investment was down $149 million primarily due to construction delays related to the SARS outbreak.
- Capital expenses in the justice sector were $14 million lower than expected due to delays associated with the completion of court and corrections projects.

Section V: Potential Risks and Cost Drivers

This section highlights some of the key sensitivities and risks to the fiscal plan that could follow from unexpected changes in economic conditions or program demand. It should be cautioned that these sensitivities and risks are only useful guidelines and can vary depending on the nature and composition of potential risk.

The Ontario Economy and Provincial Revenues

A growing economy with rising incomes and consumer spending generates higher revenues to pay for public services. Taxation revenues comprise the largest category of revenue for the Provincial government. Of the $78 billion forecast as Provincial revenue for 2004-05, $54 billion or about 69 per cent is expected to come from taxation revenue. Three revenue sources within this category—Personal Income Tax, Retail Sales Tax and Corporations Tax—account for 54 per cent of total revenue. Inherent in any multi-year revenue forecast is uncertainty about the future.

Selected Economic and Revenue Risks and Sensitivities		
Item/Key Components	**2004-05 Assumption**	**Sensitivities**
Total Taxation Revenues		
- Revenue Base[1]	3.5 per cent growth	$500 million change in revenues per percentage point change in nominal GDP growth. Can vary significantly depending on composition and source of changes in GDP growth.
- Real GDP	2.3 per cent growth in 2004	
- Nominal GDP	4.1 per cent growth in 2004	
- GDP Deflator	1.7 per cent growth in 2004	
Personal Income Tax Revenues		
Tax Assessments		
- Revenue Base	2.8 per cent growth in 2003 3.4 per cent growth in 2004-05	$180 million change in 2004-05 revenues for each percentage point change in 2003 PIT.[2]
Key Economic Assumptions		
- Employment	1.7 per cent growth in 2004	$220 million change in 2004-05 revenues for each percentage point change in wages and salaries growth.
- Wages and Salaries	3.1 per cent growth in 2004	
- Unincorporated Business Income	5.9 per cent growth in 2004	
Key Revenue Assumptions		
- Net Capital Gains Income	4.4 per cent growth in 2004	$5 million change in revenue per one percentage point change in net capital gains income.
- RRSP Deductions	4.9 per cent growth in 2004	$10 million change in revenue per one percentage point change in RRSP deductions.
Retail Sales Tax Revenues		
- Revenue Base	4.6 per cent growth	$90 million change in revenue per percentage point change in nominal consumption expenditure growth.
Includes:		
- Taxable Consumer Spending	3.8 per cent growth	
- Other Taxable Spending	5.7 per cent growth	
Key Economic Assumptions		
- Retail Sales	3.5 per cent growth in 2004	
- Nominal Consumption Expenditure	4.0 per cent growth in 2004	

Selected Economic and Revenue Risks and Sensitivities		
Item/Key Components	**2004-05 Assumption**	**Sensitivities**
Corporations Tax Revenues		
- Revenue Base - Corporate Profits - 2003-04 tax assessment refunds[3]	3.5 per cent growth 5.8 per cent growth in 2004 $1.2 billion payable	$45 million change in revenue per percentage point change in pre-tax corporate profit growth. $12 million change in revenue per one percentage point change in 2003-04 refunds.
Employer Health Tax Revenues		
- Revenue Base - Wages and Salaries	3.0 per cent growth 3.1 per cent growth in 2004	$30 million change in revenue per percentage point change in wages and salaries growth.
Ontario Health Premium Revenues		
- Revenue Base - Personal Income	4.3 per cent growth 3.4 per cent growth in 2004	$20 million change in revenue per percentage point change in personal income growth.
Gasoline Tax Revenues		
- Revenue Base - Gasoline pump prices	2.0 per cent growth 72 cents per litre	$8 million change in revenue per one cent per litre change in prices.
Fuel Tax Revenues		
- Revenue Base - Real GDP	5.8 per cent growth 2.3 per cent growth in 2004	$10 million change in revenue per percentage point change in real GDP growth.
Land Transfer Tax Revenues		
- Revenue Base - Housing Resales - Resale Prices	3.9 per cent growth 3.6 per cent growth in 2004 5.5 per cent growth in 2004	$10 million change in revenue per percentage point change in both the number and prices of housing resales.

Selected Economic and Revenue Risks and Sensitivities		
Item/Key Components	**2004-05 Assumption**	**Sensitivities**
Health and Social Transfers		
- Canada-wide Revenue Base	$20.6 billion	$30 million change in revenue per one-tenth percentage point change in population share.
- Ontario Population Share	38.8 per cent	
- Ontario PIT Base Share	44.0 per cent	
- Ontario Revenue Share	37.0 per cent	$10 million change in revenue per one-tenth percentage point change in PIT base share.

1. Revenue base is revenues excluding the impact of measures, adjustments for past Public Accounts estimate variances and other one-time factors.
2. Ontario 2003 PIT is currently a forecast estimate because 2003 tax returns are currently being assessed by Canada Revenue Agency.
3. Corporations Tax refunds arising during 2003-04 are still subject to considerable uncertainty because a very high proportion of corporations have until June 30, 2004 to file their 2003 tax return.

Expense Risks and Sensitivities

Many programs delivered by the Province are subject to potential risks and cost drivers such as utilization growth or enrolment and caseload changes. The following sensitivities are based on averages for program areas and might change depending on the nature and composition of the potential risk.

Selected Expense Risks and Sensitivities		
Program	**2004-05 Assumption**	**Sensitivities**
Hospitals	Annual growth of 4.3 per cent	One per cent change in hospital funding: $113 million.
Drug Programs	Annual growth of 8.3 per cent (in health portion)	One per cent change in utilization of all drug programs: $25 million.
Home Care/Community Services	Over 15.6 million hours of homemaking and support services 7.9 million nursing and professional visits	One per cent change in hours of homemaking and support services: $4 million. One per cent change in nursing and professional visits: $5 million.
Long-Term Care Facilities	Approximately 74,400 long-term care facility beds	Annual average Provincial operating cost per bed, after resident co-payment revenue, in a long-term care facility is over $33,000. One per cent change in number of beds: $25 million.
Elementary and Secondary Schools	Almost 2 million average daily pupil enrolment	One per cent enrolment change: $160 million.
College Students	151,000 full-time students	One per cent enrolment change: $6 million.
University Students	295,000 full-time students	One per cent enrolment change: $20 million.
Ontario Works	196,000 average annual caseload	One per cent caseload change: $15 million.
Ontario Disability Support Program	225,000 average annual caseload	One per cent caseload change: $22 million.

Selected Expense Risks and Sensitivities		
Program	**2004-05 Assumption**	**Sensitivities**
Judicial System	2.8 million adult inmate days per year	Average cost $150 per inmate per day. One per cent change in inmate days: $4 million.
Interest on debt	Average cost of borrowing is expected to be approximately 4.9 per cent.	The impact of a 100 basis-point change in borrowing rates is expected to be approximately $150 million.

Compensation Costs

Compensation costs and wage settlements are key cost drivers and have a substantial impact on both the finances of broader public sector partners and the Province.

Sector	Cost of 1% salary increase	Size of Sector
OHIP Payments to Physicians	$58 million*	Over 21,000 physicians in Ontario, comprising 10,000 family doctors and 11,000 specialists.
Hospital Nurses	$34 million*	Over 40,000 nurses in hospitals.
Elementary and Secondary School Staff	$115 million**	Over 180,000 staff including teachers, principals, administrators, support and maintenance staff.
Ontario Public Service	$45 million*	Over 60,000 public servants.

* Based on 2003-04.

** One per cent increase to salary benchmarks in Grants for Student Needs based on 2003-04 school year.

Section VI: Changes in the Reporting Entity

In August 2003, the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), which recommends accounting standards for governments in Canada, set out new standards for a government's reporting entity. The reporting entity consists of all organizations included in the government's financial statements.

Under the new standards, the Province will add to its books 105 school boards and school authorities, 24 community colleges and 154 hospitals from across Ontario. They will be consolidated into the Province's financial statements starting with the 2005-06 Public Accounts of Ontario, and in the subsequent Ontario Budget.

The change will have an impact on the Province's financial plans and reports. With the inclusion of these organizations:

- The Province's annual surplus/deficit will reflect the organizations' annual surpluses/deficits, and its net debt will include their net debt; and
- In many cases, the Province's transfer payments to them for capital purposes will be treated as Provincial investment in capital assets rather than current-year expenses.

The Ministry of Finance will work closely with the affected line ministries and their transfer partners in developing the process and protocol for meeting the new PSAB requirements.

Which organizations to include

Under the new standards, the inclusion of an organization in the reporting entity depends on whether the government controls the organization. Control is a complex issue tied to governance and legal powers. To help with decision-making, the new PSAB standards provide in-depth guidance by setting out numerous "indicators of control."

The Office of the Provincial Auditor, in its 2003 Annual Report, looked in detail at how the new standards might affect Ontario. The report concluded that the Province should carry out an assessment of colleges, school boards and hospitals, all of which met significant markers of control. The Province's assessment concluded that it was appropriate to include school boards and school authorities (small school boards located in remote areas), hospitals and colleges in the reporting entity.

Other organizations in the broader public sector may also meet the new standards. The Province will work with the Office of the Provincial Auditor to assess which organizations should be included in its financial statements in the future, and when.

How to consolidate

The financial results of all organizations in the reporting entity must be consolidated into one set of figures for the Budget or financial statements.

PSAB has recommended that the organizations initially be consolidated on a "one-line" basis. Under this treatment, the total net assets of included organizations are shown as a single line in the Province's assets. Similarly, their annual surplus/deficit is shown in total as a single-line item on the Province's Consolidated Statement of Operations.

Under the one-line consolidation method, organizations can be included on the accounting basis they view as the most appropriate for their organization, whether or not that basis is the same as the Province's. To illustrate, colleges and hospitals now use generally accepted accounting standards appropriate for not-for-profit organizations. With the assistance of the Province, school boards are adopting generally accepted accounting standards appropriate for local government organizations. Neither of these treatments, however, corresponds directly to PSAB standards used by Ontario and other provincial governments. For example, PSAB for local government organizations does not currently treat investment in tangible capital assets the way that provincial government standards do.

PSAB has proposed that governments, including Ontario, ultimately move to what is called full consolidation of organizations that meet the test of control under the new standards. Under this treatment, the organizations would have to adopt the same accounting policies as the Province, and each item of their revenue and spending, and their assets and liabilities, would be combined with the same item in the Province's financial statements.

Ontario has serious concerns about fully consolidating these organizations. In the view of the Province, one-line consolidation is a better treatment. It meets the Province's need to reflect the overall financial impact of these organizations and to exercise high-level control. At the same time, it shows more clearly that organizations such as hospitals, school boards and colleges operate with a greater degree of autonomy—through their boards, their ability to raise funds or revenues, and their latitude in allocating their resources—than organizations directly controlled by the Province that are fully consolidated.

Ontario has already expressed these concerns to PSAB, and will work with PSAB and the Office of the Provincial Auditor to resolve them.

Transparency, Accountability, Consistency

In line with its commitment to best practices in fiscal planning and reporting, Ontario recognizes that one-line consolidation of certain organizations supports important goals:

Greater transparency

At present, about 80 per cent of the Province's program and capital spending is in the form of transfer payments to individuals and organizations such as hospitals, schools, long-term care facilities and colleges. However, the only information available on the Province's books for these organizations, at present is the funds transferred each year. One-line consolidation will also reflect whether these organizations are running surpluses or deficits.

The Province will further enhance the transparency by providing segmented information on the major categories of assets, liabilities, revenues and expenses, by sector, in the notes to its financial statements.

Stronger accountability

Greater transparency goes hand-in-hand with the need for greater accountability. For example, if a newly added organization overspends and runs a deficit, the Province's deficit will increase accordingly. This is a reminder that the organizations and the Province have a responsibility to taxpayers as well as those who use public services.

Consistent accounting for capital

The Province records investments in its own long-lived assets, such as highways, as investment in capital assets rather than current-year expense. However, funds for capital purposes that are transferred to organizations outside the reporting entity are treated as current-year expense in the Province's books. In the case of hospitals and colleges, consolidation will remove this inconsistency in accounting for capital.

Conclusion

The fiscal path followed by the previous government was not sustainable. This government is determined to take a balanced and responsible approach to eliminating the structural deficit it inherited, while improving the programs and services that people value and need the most.

The government is committed to achieving its medium-term deficit reduction targets, balancing the budget in 2007-08, and to beginning the transitional process of moving towards a higher level of fiscal responsibility and transparency. This approach to fiscal planning is based on the overarching principles that fiscal planning should meet the priorities of the people of Ontario; governments should live within their means; all provincial spending, ministry plans and activities should produce specific results; and fiscal planning and reporting should be made more transparent.

By adhering to this approach, the Province is setting out a fiscal plan that is both realistic and sustainable. In particular, this approach will ensure that funding is directed to the priorities that matter to Ontarians and that these services are affordable in the longer term.

Tables and Graphs

Statement of Financial Transactions ($ Millions)					Table A1
	2000-01	2001-02	Actual 2002-03	Interim 2003-04	Plan 2004-05
Revenue*	66,044	66,249	68,609	68,250	78,360
Expense					
Programs	51,146	53,647	56,922	62,518	66,695
Capital**	2,123	1,890	1,876	2,202	2,575
Interest on Debt	10,873	10,337	9,694	9,752	10,329
Total Expense	64,142	65,874	68,492	74,472	79,599
Reserve	-	-	-	-	1,000
Surplus / (Deficit)	**1,902**	**375**	**117**	**(6,222)**	**(2,239)**
Net Debt†	**132,496**	**132,121**	**132,647**	**139,405**	**142,412**
Accumulated Deficit†	**132,496**	**132,121**	**118,705**	**124,927**	**127,166**

* Includes one-time revenue gain of $3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

** Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

† Net debt represents the difference between liabilities and financial assets. Accumulated deficit represents net debt adjusted for tangible capital assets.

Revenue **Table A2**
($ Millions)

	2000-01	2001-02	Actual 2002-03	Interim 2003-04	Plan 2004-05
Taxation Revenue					
Personal Income Tax	17,911	19,097	18,195	17,778	18,821
Retail Sales Tax	13,735	13,803	14,183	14,260	15,036
Corporations Tax	9,200	6,646	7,459	7,222	8,320
Employer Health Tax	3,424	3,502	3,589	3,737	3,874
Gasoline Tax	2,172	2,192	2,306	2,282	2,328
Fuel Tax	648	659	682	684	716
Ontario Health Premium	-	-	-	-	1,635
Tobacco Tax	504	703	1,183	1,299	1,452
Land Transfer Tax	642	665	814	911	927
Electricity Payments-In-Lieu of Taxes	907	387	711	597	630
Other Taxes	333	371	429	391	259
	49,476	**48,025**	**49,551**	**49,161**	**53,998**
Government of Canada					
Canada Health and Social Transfer (CHST)	4,138	5,831	7,346	7,014	-
Canada Health Transfer (CHT)	-	-	-	-	4,677
Canada Social Transfer (CST)	-	-	-	-	2,924
CHST Supplements	757	380	191	577	775
Social Housing	541	524	525	522	521
Health Reform Fund	-	-	-	387	582
Diagnostic/Medical Equipment	190	190	-	193	193
Infrastructure	2	-	62	155	267
Other Government of Canada	501	829	770	1,114	859
	6,129	**7,754**	**8,894**	**9,962**	**10,798**
Income from Investment in Government Business Enterprises					
Ontario Lottery and Gaming Corporation	2,181	2,255	2,288	2,100	2,117
Liquor Control Board of Ontario	877	904	939	1,043	1,117
Ontario Power Generation Inc. and Hydro One Inc.	783	179	717	(15)	335
Other Government Enterprises	14	7	(2)	(59)	(5)
	3,855	**3,345**	**3,942**	**3,069**	**3,564**
Other Non-Tax Revenue					
Net Reduction of Power Purchase Contract Liability*	-	-	161	104	4,024
Reimbursements	1,809	1,592	1,111	1,175	1,252
Electricity Debt Retirement Charge	-	-	889	1,000	1,009
Vehicle and Driver Registration Fees	929	941	982	986	987
Power Sales	695	815	635	510	675
Other Fees and Licences	503	474	606	505	536
Liquor Licence Revenue	525	530	530	486	499
Sales and Rentals	637	344	560	520	403
Royalties	235	224	304	243	239
Miscellaneous Other Non-Tax Revenue	1,251	2,205	444	529	376
	6,584	**7,125**	**6,222**	**6,058**	**10,000**
Total Revenue	**66,044**	**66,249**	**68,609**	**68,250**	**78,360**

* Includes one-time revenue gain of $3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

Operating Expense ($ Millions)					Table A3
Ministry	2000-01	2001-02	Actual 2002-03	Interim 2003-04	Plan 2004-05
Agriculture and Food	634	775	615	677	549
Attorney General*	969	995	1,052	1,156	1,162
Board of Internal Economy	116	124	146	204	149
Children and Youth Services*	2,070	2,244	2,431	2,643	2,832
Citizenship and Immigration*	65	59	53	56	62
Community and Social Services*	5,772	5,751	5,787	6,016	6,317
Community Safety and Correctional Services*	1,419	1,513	1,652	1,670	1,745
Consumer and Business Services	155	172	178	184	213
Culture	236	279	330	294	277
Democratic Renewal Secretariat	-	-	-	-	4
Economic Development and Trade*	200	221	241	260	414
Education	7,961	8,354	8,998	9,754	10,623
Teachers' Pension Plan (TPP)	(402)	42	238	235	359
Energy	344	367	144	118	137
Environment*	190	265	237	260	304
Executive Offices	21	19	20	22	19
Finance - Own Account*	1,146	1,196	1,092	1,316	1,184
Interest on Debt	10,873	10,337	9,694	9,752	10,329
Change Fund	-	-	-	-	328
Community Reinvestment Fund	561	557	622	652	656
Electricity Consumer Price Protection Fund	-	-	665	253	-
Power Purchases	695	815	786	799	946
Health and Long-Term Care*	22,530	23,738	25,607	28,100	29,652
Change Fund	-	-	-	-	609
SARS-related and Major One-Time Health Costs	-	-	-	842	-
Intergovernmental Affairs*	6	6	9	6	9
Labour	104	110	123	120	133
Management Board Secretariat*	144	246	172	268	355
Retirement Benefits	(33)	63	102	340	433
Contingency Fund	-	-	-	-	965
Municipal Affairs and Housing*	1,792	1,135	636	678	692
Native Affairs Secretariat	16	13	16	16	14
Natural Resources	417	438	454	518	505
Northern Development and Mines	69	75	73	79	73
Office of Francophone Affairs	4	5	3	4	4
Public Infrastructure Renewal*	9	15	33	23	31
Tourism and Recreation*	124	143	135	213	184
Training, Colleges and Universities	3,219	3,248	3,471	3,934	4,194
Transportation	593	664	801	808	862
Year-End Savings	-	-	-	-	(300)
Total Operating Expense	**62,019**	**63,984**	**66,616**	**72,270**	**77,024**

* Ministries restated to reflect new government structure.

Capital Expense † ($ Millions)					Table A4
Ministry	2000-01	2001-02	Actual 2002-03	Interim 2003-04	Plan 2004-05
Agriculture and Food	1	29	68	1	7
Attorney General	42	46	43	25	55
Children and Youth Services*	10	6	7	-	9
Community and Social Services*	4	25	16	10	21
Community Safety and Correctional Services	99	88	66	47	42
Consumer and Business Services	-	-	1	1	2
Culture	18	14	42	28	70
Economic Development and Trade*	-	19	21	32	39
Education	4	17	10	16	27
Energy	86	50	46	54	52
Environment	22	20	13	4	13
Finance*	7	11	8	5	4
Health and Long-Term Care	322	205	339	355	346
Management Board Secretariat**	24	28	3	(1)	(13)
Municipal Affairs and Housing*	-	12	20	208	234
Native Affairs Secretariat	5	3	2	-	2
Natural Resources	65	70	72	69	85
Northern Development and Mines	356	371	391	344	447
Public Infrastructure Renewal*	4	-	4	17	168
Capital Contingency Fund	-	-	-	-	150
Tourism and Recreation	14	9	55	54	65
Training, Colleges and Universities	204	49	71	121	171
Transportation	836	818	578	812	679
Year-End Savings	-	-	-	-	(100)
Total Capital Expense †	**2,123**	**1,890**	**1,876**	**2,202**	**2,575**

† Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

* Ministries restated to reflect new government structure.

** Ministries' contributions for investments in Provincially owned land and buildings are recorded as an expense by the contributing ministries. Starting in 2002-03 any resulting adjustment to expense from the capitalization and amortization of most of these Provincially owned land and buildings is recorded in Management Board Secretariat.

Sources: Ontario Ministry of Finance and Ontario Ministry of Public Infrastructure Renewal.

Schedule of Net Investment in Capital Assets ($ Millions)				**Table A5**
	2004-05 Plan			
	Land and Buildings	**Transportation Infrastructure**	**Government Organizations' Capital Assets**	**Total**
Acquisition/Construction of Major Tangible Capital Assets	135	998	432	1,565
Amortization of Provincially Owned Major Tangible Capital Assets	(78)	(524)	(195)	(797)
Net Investment in Capital Assets*	**57**	**474**	**237**	**768**

* Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

Source: Ontario Ministry of Public Infrastructure Renewal.

Ten-Year Review of Selected Financial and Economic Statistics ($ Millions)			
	1995-96	**1996-97**	**1997-98**
Financial Transactions			
Revenue*	49,473	49,450	52,518
Expense			
Programs	46,163	45,136	45,304
Capital**	3,635	2,612	2,451
Interest on Debt	8,475	8,607	8,729
Total Expense	58,273	56,355	56,484
Reserve	-	-	-
Surplus / (Deficit)	**(8,800)**	**(6,905)**	**(3,966)**
Net Debt†	**101,864**	**108,769**	**112,735**
Accumulated Deficit†	**101,864**	**108,769**	**112,735**
Gross Domestic Product (GDP) at Market Prices	329,317	338,173	359,353
Personal Income	271,397	276,303	289,537
Population—July (000s)	10,950	11,083	11,228
Net Debt per Capita (dollars)	9,303	9,814	10,041
Personal Income per Capita (dollars)	24,785	24,930	25,787
Total Expense as a per cent of GDP	17.7	16.7	15.7
Interest on Debt as a per cent of Revenue	17.1	17.4	16.6
Net Debt as a per cent of GDP	30.9	32.2	31.4
Accumulated Deficit as a per cent of GDP	30.9	32.2	31.4

* Includes one-time revenue gain of $3,881 million related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

** Starting in 2002-03, major tangible capital assets owned by Provincial ministries (land, buildings and transportation infrastructure) are accounted for on a full accrual accounting basis. Other tangible capital assets owned by Provincial ministries will continue to be accounted for as expense in the year of acquisition or construction. All capital assets owned by consolidated government organizations are accounted for on a full accrual basis.

† Net debt represents the difference between liabilities and financial assets. Accumulated deficit represents net debt adjusted for tangible capital assets.

Sources: Ontario Ministry of Finance and Statistics Canada.

Table A6

1998-99	1999-00	2000-01	2001-02	Actual 2002-03	Interim 2003-04	Plan 2004-05
55,786	64,804	66,044	66,249	68,609	68,250	78,360
46,557	48,222	51,146	53,647	56,922	62,518	66,695
2,215	4,887	2,123	1,890	1,876	2,202	2,575
9,016	11,027	10,873	10,337	9,694	9,752	10,329
57,788	64,136	64,142	65,874	68,492	74,472	79,599
-	-	-	-	-	-	1,000
(2,002)	**668**	**1,902**	**375**	**117**	**(6,222)**	**(2,239)**
114,737	**134,398**	**132,496**	**132,121**	**132,647**	**139,405**	**142,412**
114,737	**134,398**	**132,496**	**132,121**	**118,705**	**124,927**	**127,166**
377,897	409,020	440,708	452,923	478,112	493,416	513,519
304,652	321,702	347,427	359,783	372,444	381,005	393,959
11,367	11,506	11,685	11,898	12,097	12,238	12,397
10,094	11,681	11,339	11,104	10,965	11,391	11,488
26,801	27,959	29,733	30,239	30,788	31,133	31,779
15.3	15.7	14.6	14.5	14.3	15.1	15.5
16.2	17.0	16.5	15.6	14.1	14.3	13.2
30.4	32.9	30.1	29.2	27.7	28.3	27.7
30.4	32.9	30.1	29.2	24.8	25.3	24.8

Multi-Year Balanced Budget Plan **Table A7**
($ Billions)

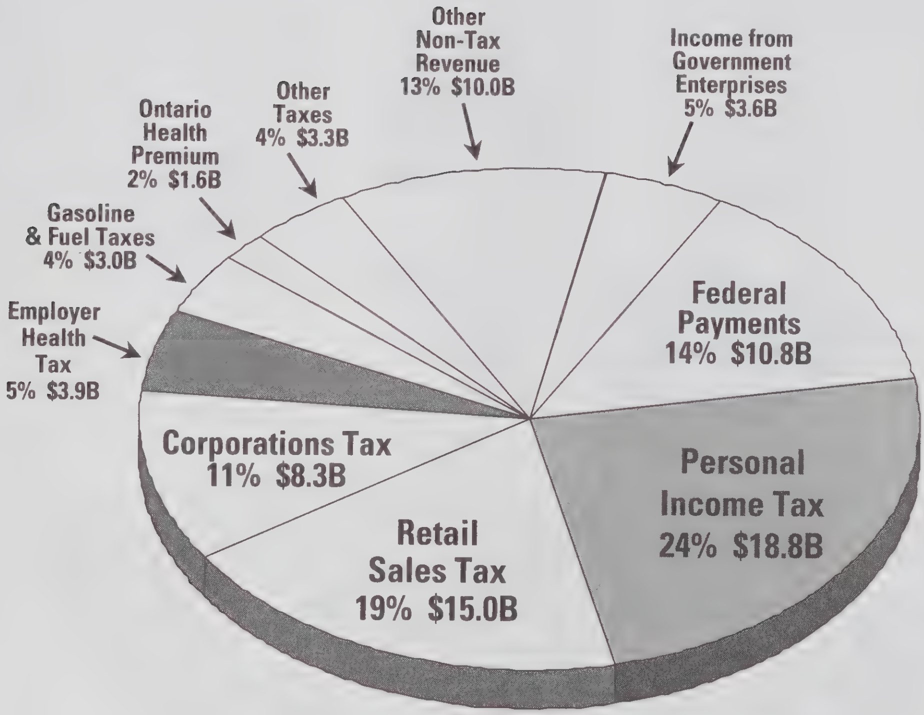
	Interim	Plan	Outlook		
	2003-04	2004-05	2005-06	2006-07	2007-08
Revenue*	68.3	78.4	79.9	82.5	86.0
Expense					
Programs	62.5	66.7	67.2	68.9	70.6
Capital	2.2	2.6	2.5	2.5	2.5
Interest on Debt	9.8	10.3	10.8	11.1	11.5
Total Expense	74.5	79.6	80.5	82.5	84.5
Reserve	-	1.0	1.5	1.5	1.5
Surplus/(Deficit)	**(6.2)**	**(2.2)**	**(2.1)**	**(1.5)**	**0.0**
Net Debt†	**139.4**	**142.4**	**145.4**	**147.9**	**148.7**
Accumulated Deficit†	**124.9**	**127.2**	**129.2**	**130.7**	**130.7**
Gross Domestic Product (GDP) at Market Prices	493.4	513.5	539.2	567.3	597.4
Net Debt as a per cent of GDP	28.3	27.7	27.0	26.1	24.9
Accumulated Deficit as a per cent of GDP	25.3	24.8	24.0	23.0	21.9

* Includes one-time revenue gain of $3.9 billion related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

† Net debt represents the difference between liabilities and financial assets. Accumulated deficit represents net debt adjusted for tangible capital assets.

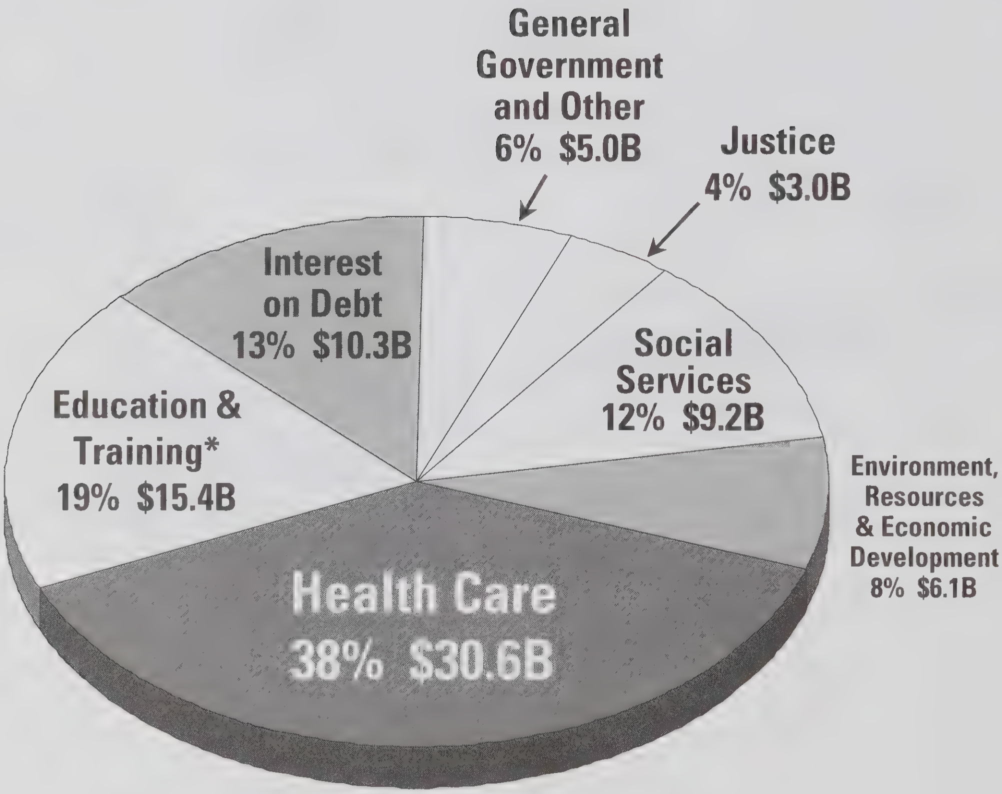
Numbers may not add due to rounding.

Composition of Revenue
2004-05



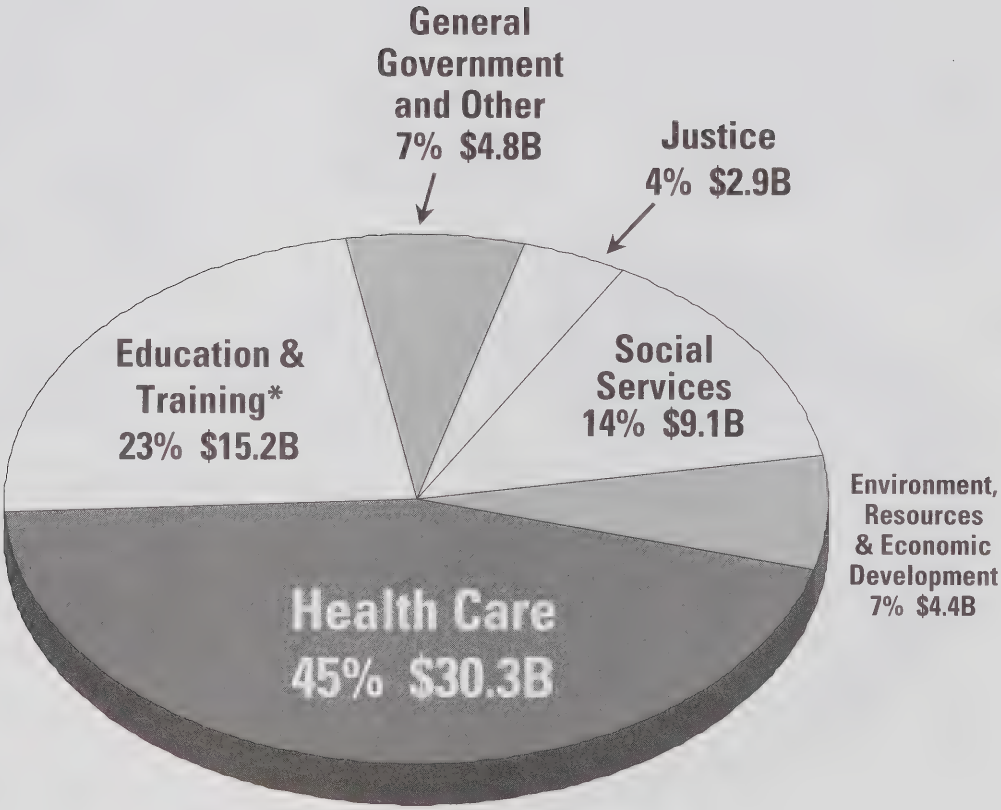
Note: Numbers may not add due to rounding.

Composition of Total Expense
2004-05



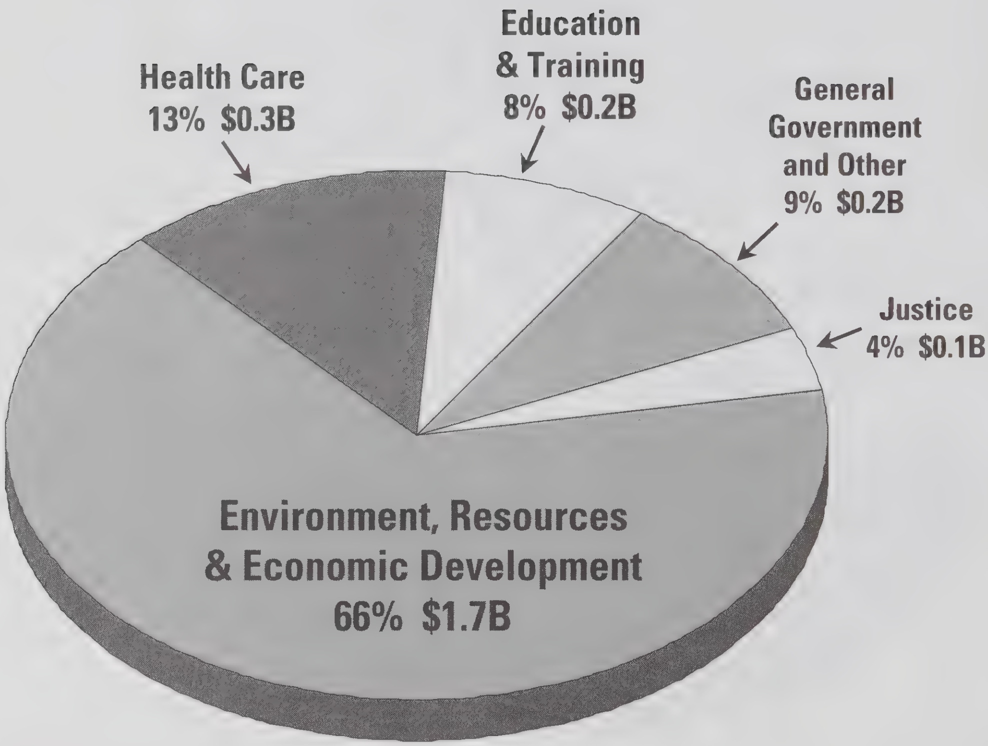
* Includes Teachers' Pension Plan.
Note: Numbers may not add due to rounding.

Composition of Program Expense 2004-05



* Includes Teachers' Pension Plan.
Note: Numbers may not add due to rounding.

Composition of Capital Expense 2004-05



Note: Numbers may not add due to rounding.

PAPER B

Ontario's Economy

Overview

The Ontario economy is expected to gain momentum in 2004 and to rebound from the series of shocks that slowed economic growth in 2003. Ontario's real gross domestic product (GDP) is forecast to grow by 2.3 per cent in 2004, and an average of 3.3 per cent over the period from 2005 to 2007. This growth will foster strong job creation and rising incomes. Inflation is expected to remain contained at around two per cent per year. The following table highlights the economic assumptions that have been used in developing Ontario's fiscal plan.

Ontario Economic Highlights (Annual Average, Per Cent)

	2001	2002	2003	2004p	2005p	2006p	2007p
Real GDP Growth	1.8	3.6	1.3	2.3	3.2	3.3	3.4
Nominal GDP Growth	2.8	5.6	3.2	4.1	5.0	5.2	5.3
Unemployment Rate	6.3	7.1	7.0	6.7	6.5	6.2	5.9
CPI Inflation	3.1	2.0	2.7	1.9	2.1	1.9	1.8

p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

In most years, Ontarians can expect the province to be one of the fastest-growing regions of the advanced industrial world. Ontario benefits from a growing labour force, which is attracted and sustained by a high quality of life and equipped with the education, skills and initiative required to meet the needs of today's knowledge-based marketplace. As well, a favourable location in the North American marketplace and a hospitable business climate combine to make Ontario a prime location for investment.

From year to year, Ontario's economic performance is strongly influenced by developments outside its borders. The economic health of Ontario's primary trading partners—the rest of Canada and the United States—governs the demand for the province's exports. Interest rates affect the economy, for example, by encouraging or discouraging investment and home ownership. Movements in exchange rates affect the competitiveness of our industries in world markets and change the prices of imported goods. The last year demonstrated that the Ontario economy can also be jolted by unanticipated setbacks such as the SARS outbreak and the power blackout in August 2003.

Faced with the risk that circumstances may be less favourable than expected, this Budget employs economic planning assumptions that are prudent and below the current private-sector consensus.

Economic Growth Assumptions (Per Cent)				
	2004p	2005p	2006p	2007p
Real GDP Growth				
Private-sector survey average	2.7	3.5	3.4	3.4
Ontario's planning projection	2.3	3.2	3.3	3.4

p = projection.
Note: The number of forecasters falls from 10 in 2004, to 9 in 2005 and 4 in 2006 and 2007.
Sources: Ontario Ministry of Finance and Ontario Ministry of Finance Survey of Forecasts (May 11, 2004).

The government's role in the economy is to strengthen the foundation for economic growth. That means economic policies that attract investment, encourage research and foster innovation. It also means creating a positive business climate by delivering vital public services efficiently and effectively. The modern, highly competitive, global economy demands no less.

Enhancing Ontario's competitive advantage means, above all, building on the talents of Ontarians, by providing all citizens with the opportunity to achieve their full potential. Ontario will develop its human resources through the education system, from pre-school to adult education. The government's goal is to ensure that Ontario has a high-wage, good-job economy for the next generation of Ontarians. The government's ambition is to build the most skilled workforce in North America.

The government has a further responsibility to support the economy through sound fiscal policy. That means responsible investments, within a balanced budget plan, that support growth, a competitive tax system, health care that employers can depend on for their employees, modern infrastructure, reliable electricity generation, and smart immigration and trade policies.

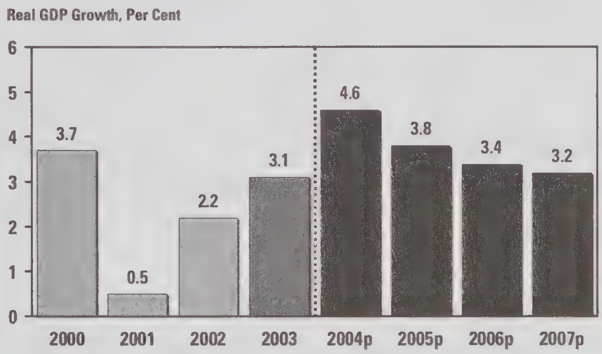
Strong U.S. Economic Growth

The performance of the world economy, and especially the U.S. economy, is a key determinant of Ontario's economic growth. In 2003, U.S. consumers and businesses purchased goods and services valued at about $200 billion from Ontario, equivalent to 40 per cent of the province's GDP. This represented more than 90 per cent of Ontario's international exports.

The prospects for the world economy are bright. Private-sector forecasters expect global economic growth to rise to 3.7 per cent in 2004 and 3.2 per cent in 2005, up from 2.6 per cent in 2003. The U.S. economy is expected to grow at an even faster pace. After strong growth in 2003, bolstered by low interest rates, substantial fiscal stimulus and a decline in the value of the U.S. dollar, private-sector forecasters anticipate that robust growth in the United States will continue through the next four years. Job creation in the United States has recently begun to accelerate. Forecasters expect job gains to be sustained, with employment rising 1.0 per cent in 2004 and 1.9 per cent in 2005. Stronger job creation will support income growth and consumer spending—welcome outcomes for Ontario. High productivity growth has raised profits, while the weakening U.S. dollar has lifted exports. Both of these trends will encourage businesses to boost investment spending on plant and equipment. As a result, real GDP is forecast to increase by 4.6 per cent in 2004, the fastest gain since 1984 and the strongest economic growth rate expected for any of the major industrial countries. Forecasters project growth of 3.8 per cent in 2005, 3.4 per cent in 2006 and 3.2 per cent in 2007.

While continued growth is expected, the U.S. economy faces a number of significant challenges, including widening government deficits and a substantial current account deficit. When and how these imbalances will be resolved creates a risk to U.S. growth projections.

U.S. Real Growth



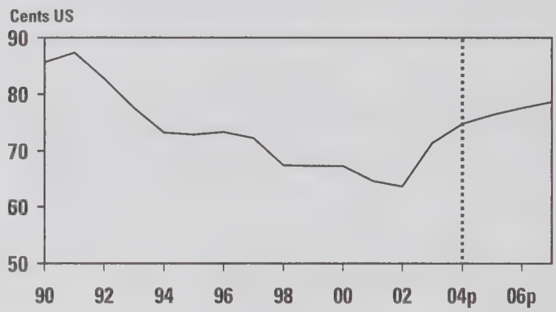
p = projection.
Sources: U.S. Bureau of Economic Analysis and Blue Chip Economic Indicators (March and May 2004).

Canada's Rising Exchange Rate

The U.S. dollar has fallen against all of the major currencies with the exception of the Chinese yuan. As a result, the Canadian dollar has risen by close to 14 per cent relative to the U.S. dollar since the beginning of 2003. The euro is slightly higher at close to 17 per cent, while the Japanese yen has appreciated close to 10 per cent since the beginning of 2003. China, whose exports to Canada and the United States continue to grow very rapidly, maintains a fixed exchange rate with the United States.

A stronger Canadian dollar has some clear benefits, most notably raising the standard of living of Ontario consumers by making imported goods less costly. It also makes business investment in new, productivity-enhancing machinery and equipment more affordable, since about 60 per cent of this equipment is imported.

Canadian Dollar



p = projection.
Sources: Bank of Canada and Ontario Ministry of Finance.

The unprecedented appreciation in 2003, however, made it difficult for exporters to maintain their competitiveness. Recently, the Canadian dollar has fallen back from over 78 cents US to under 73 cents US in early May, reducing the potential risk to economic growth.

Canadian firms are confident in their ability to adjust to the appreciation of the currency. According to the Bank of Canada's most recent industry survey, many adversely affected firms have initiated measures to alleviate the impact of the higher dollar, primarily through measures to cut costs and improve productivity. In contrast, businesses favourably affected by the higher value of the dollar—those that use imported inputs that are now cheaper—have responded by reducing their selling prices as well as increasing their profit margins.

The depreciation of the U.S. dollar against other currencies is expected to resume, reflecting record-high current account deficits of close to five per cent of GDP and ongoing fiscal deficits of more than four per cent of GDP. In contrast, Canada's current account surplus, its commitment to sustainable public finances and rising global commodity prices are all consistent with a stronger Canadian dollar.

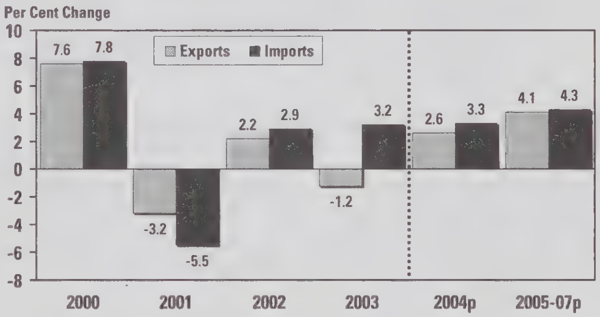
The Canadian dollar is expected to resume its appreciation, rising from an annual average of 71.4 cents US in 2003 to 74.8 cents US in 2004 and reaching 78.6 cents US by 2007.

The Outlook for Ontario Trade

The strong pickup in global economic growth, particularly in the United States, will provide a solid base of demand for Ontario exporters in 2004. While demand is strong, Ontario exporters face the challenge of remaining competitive in the global marketplace and adjusting to the higher dollar. As well, the Province has to work closely with the federal government and industry to facilitate cross-border trade and the timely resolution of trade disputes.

The volume of Ontario exports fell 1.2 per cent in 2003, while imports grew 3.2 per cent. Exports faced a series of obstacles in addition to the rise in the exchange rate. The SARS outbreak affected tourist spending in Ontario during the middle of the year and the blackout in August caused a sharp reduction in exports in that month. Despite a pickup in U.S. growth, Ontario exports have been slow to recover because the composition of U.S. demand has not been favourable. Furthermore, some of the increase in demand has been met by running down inventories. U.S. auto sales averaged 17.0 million units in 2003, down 0.7 per cent from the previous year.

Ontario Real International and Interprovincial Trade



p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

The auto industry is Ontario's leading export sector. It accounts for close to 47 per cent of Ontario's international merchandise exports. Machinery and equipment ranks second, accounting for over 20 per cent of exports.

Private-sector forecasters expect a 14.5 per cent increase in U.S. business equipment and software spending in 2004, followed by a gain of 11.1 per cent in 2005. Over the same period, auto sales are projected to average just under 17 million units per year, near historic high levels.

The rise in the exchange rate is expected to dampen export growth in the near term with a 2.6 per cent gain expected in 2004. Real export growth is expected to strengthen to an average of 4.1 per cent in 2005 through 2007 as firms will have completed their adjustment to the higher exchange rate. Real imports are expected to grow at a similar pace, pulled by strong consumer and business spending growth.

Auto Industry

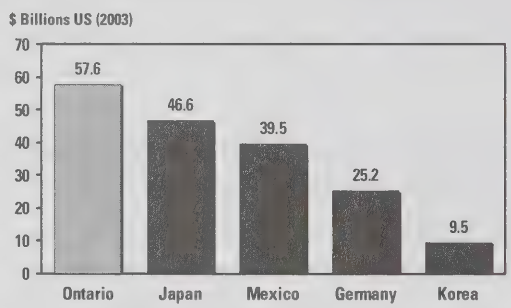
Ontario is the second-largest auto producer in North America, behind Michigan. It exports more vehicles and parts to the United States than Japan, Mexico or any other nation. The auto sector plays a critical role in the province's economic prosperity and trade performance.

The new Ontario Automotive Investment Strategy (OAIS) has been designed to ensure Ontario maintains its competitive advantages in auto and parts production. The strategy's $500 million fund will be directed at investment in new innovative technologies, enhanced skills training and public infrastructure necessary to keep the sector vibrant and maintain Ontario's position as a leading production jurisdiction into the future.

Competitive pressures in the North American auto industry are expected to remain intense. Despite the rise in the Canadian dollar, Ontario remains well positioned in the North American context for a number of reasons:

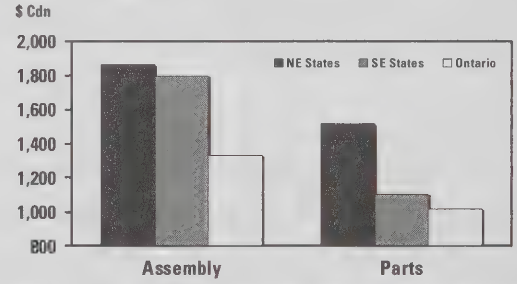
- Ontario's auto industry is closely integrated with Michigan, Ohio, Illinois and Indiana, as the leading vehicle and parts production region in North America. The Great Lakes region forms a premier location for integrated "just-in-time" production with huge flows of vehicle parts between its jurisdictions.
- Ontario's auto sector continues to enjoy a competitive advantage in labour costs, including health care costs, compared to its U.S. counterpart. In 2003, Ontario's wage advantage was 30 per cent in auto assembly and 29 per cent in parts manufacturing, based on an exchange rate of 75 cents US.
- Forty-three per cent of Ontario's auto manufacturing employees have completed post-secondary education, a much higher proportion than the 27 per cent in the United States. Ontario's highly skilled workforce has contributed to numerous auto-plant productivity and quality awards.

Ontario Largest Auto and Parts Exporter to U.S.



Note: Ontario Auto and Parts Exports = 96% of Canada.
Sources: U.S. Census Bureau, Industry Canada and Ontario Ministry of Finance.

Auto Assembly and Parts Manufacturing: Average Weekly Wage (including Health Costs)



Notes: 2002 data. $1 Cdn=$0.75 US. NE States include Michigan, Ohio, Indiana and Illinois. SE States include Alabama, Kentucky, Texas, Tennessee, S. Carolina and Mississippi.
Sources: U.S. Bureau of Labor Statistics, Statistics Canada and Ontario Ministry of Finance.

Low Interest Rates and Moderate Inflation

Interest rates affect the spending decisions of businesses and households. The interest rates paid by Ontario borrowers depend on world financial markets and on the policy of the Bank of Canada. The Bank of Canada began cutting interest rates in mid-2003 as Canadian economic growth slowed and inflation remained low. Although there has been an improvement in external demand, particularly from the United States, Canadian consumer spending and business investment have been weak. In addition, inflation has fallen well below the Bank of Canada's two per cent target for core inflation. As a result, the Bank cut interest rates a further 75 basis points in early 2004 to support economic growth. The Bank's actions have lowered short-term interest rates by a total of 1.25 percentage points since last June, bringing them to their lowest level in more than 40 years.

Both the U.S. Federal Reserve and the Bank of Canada are expected to begin increasing short-term rates as economic growth strengthens in coming quarters. This will guard against inflationary pressures that would otherwise emerge over the next few years as the economies of the United States and Canada move closer to full capacity. Longer-term rates are also expected to rise moderately. Despite these increases, rates are expected to remain low by historic standards.

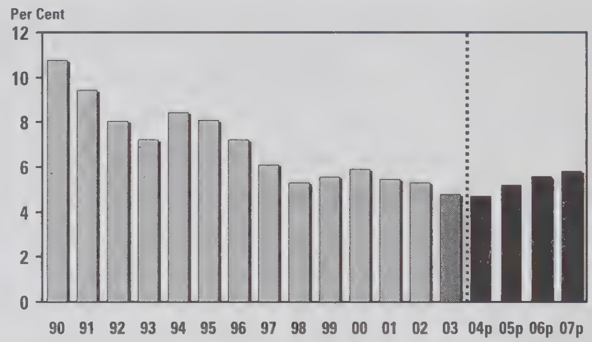
Interest Rate and Inflation Outlook
(Annual Per Cent)

	2002	2003	2004p	2005p	2006p	2007p
3-Month Canadian Treasury Bill Rate	2.6	2.9	2.1	3.0	4.1	4.6
10-Year Government of Canada Bond Rate	5.3	4.8	4.7	5.2	5.6	5.8
Ontario CPI Inflation Rate	2.0	2.7	1.9	2.1	1.9	1.8

p = projection.
Sources: Bank of Canada, Statistics Canada and Ontario Ministry of Finance.

The outlook for sustained low nominal interest rates reflects the Bank of Canada's commitment to low inflation. Ontario's CPI inflation rate is expected to drop from 2.7 per cent in 2003 to 1.9 per cent in 2004 and average close to 2.0 per cent over the next three years.

10-Year Government of Canada Bond Rate

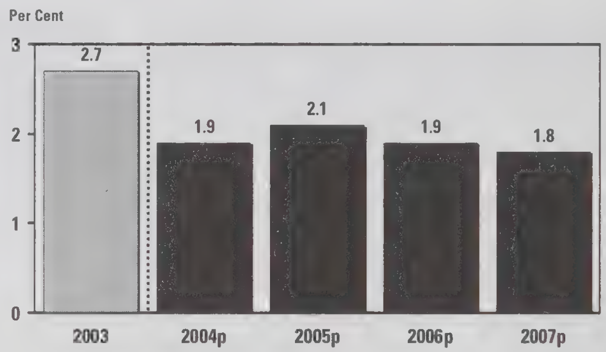


p = projection.
Sources: Bank of Canada and Ontario Ministry of Finance.

Prices for a wide range of commodities and industrial products have risen sharply over the past year and a half, reflecting strong demand, particularly from China. This is not expected to fuel broader inflation because resource inputs are only a small part of total costs. At the same time, high commodity prices benefit resource-based industries in Ontario and the rest of Canada.

Oil prices rose to $40 US a barrel in early May, the highest level in 13 years. Oil prices are expected to stay high in the near term because of tensions in several of the oil-rich regions of the world. This Budget's oil price assumption was based on the May Consensus Forecast that projects oil prices will fall to $30.40 US by the end of May 2005. Since December 2003, Ontario's average gasoline price has jumped from 66 cents per litre to over 80 cents in mid-May.

Ontario CPI Inflation Outlook



p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Exposure to External Shocks

The growth rate of the U.S. economy, crude oil prices, interest rates and the exchange rate can have a significant influence on Ontario's economy. The table below shows the typical range for the first- and second-year impact of changes in these outside forces on the real growth of our economy. These estimates are based on historic statistical relationships. They show the implications of changes in key assumptions in isolation from changes to other external factors. In any actual situation, the combination of other circumstances can also have a substantial bearing on the outcome. The range of possible impacts reflects a variety of factors.

- For example, each percentage point increase in U.S. real growth adds 0.3 to 0.7 percentage points to real growth in Ontario in the first year. In this case, the range in part reflects the fact that the impact on Ontario growth depends on the composition of U.S. growth.
- A five-cent rise in the Canadian dollar reduces Ontario growth by 0.2 to 0.9 percentage points in the first year. This range reflects a number of uncertainties, such as the extent to which firms pass through lower costs for imports to the prices charged to Canadian buyers for these goods and services.

The magnitude of these impacts shows the importance of cautious planning since the growth of Ontario's economy and revenues depends critically on external factors. Other unpredictable events, such as the outbreak of SARS and the power blackout last August, also underscore the need for prudent fiscal planning.

Impact of Changes in Key Assumptions on Ontario Real GDP Growth

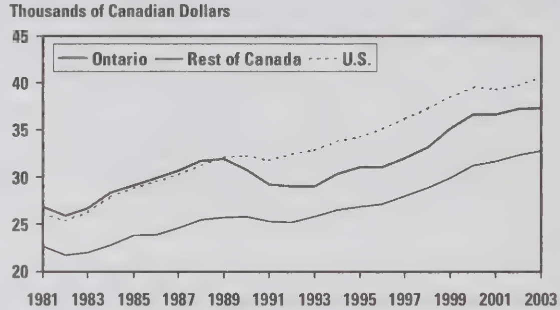
(Percentage point change)	First Year	Second Year
Canadian Interest Rates Increase by 1 Percentage Point	-0.1 to -0.5	-0.2 to -0.6
U.S. Real GDP Growth Increases by 1 Percentage Point	+0.3 to +0.7	+0.4 to +0.8
Canadian Dollar Appreciates by 5 Cents US	-0.2 to -0.9	-0.7 to -1.4
World Crude Oil Prices Increase by $10 US per Barrel	-0.3 to -0.7	-0.1 to -0.5

Source: Ontario Ministry of Finance.

Growth, Jobs and Prosperity

The goal of the Ontario Government, whatever the external circumstances that face the province, is to achieve strong economic growth and rising living standards. A key element of high living standards is focused, high-quality public services. Strong economic growth ensures that the government has the revenue that is needed to pay for government services. Without high-quality government services, Ontario will lose one of its main sources of competitive advantage. Without that advantage, the investment needed to generate growth will not materialize.

Ontario's GDP Per Capita Compared to the U.S. and Rest of Canada

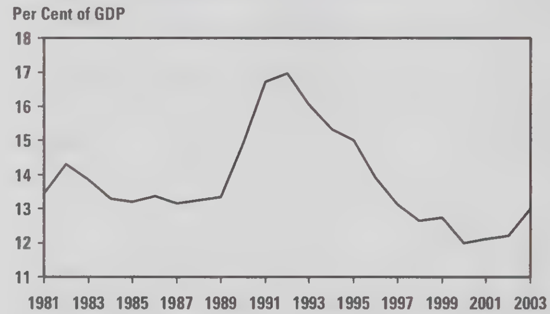


Note: U.S. converted to Canadian dollars using Statistics Canada purchasing power estimate of the exchange rate of 84 cents US.

Sources: U.S. Bureau of Economic Analysis, Statistics Canada and Ontario Ministry of Finance.

Economic growth, job creation, investment, innovation and rising productivity go together. The Ontario economy was plagued by instability and performed relatively poorly during the 1990s. In 1989, real GDP per capita in Ontario was about equal to the U.S. average and almost 25 per cent higher than the average in the rest of Canada. By 2003, Ontario was about 8 per cent below the United States and only 14 per cent above the rest of Canada. In comparison to all U.S. states and Canadian provinces, Ontario GDP per capita fell from 17th place in 1989 to 30th place in 2000.

Ontario Government Spending Excluding Interest on Debt



Sources: Ontario Ministry of Finance and Fiscal Reference Tables.

That lost growth is one of the main reasons the Ontario Government has continued to suffer from major fiscal challenges, even though government spending was cut back sharply in the second half of the 1990s. When expressed as a share of GDP, Ontario government spending (excluding interest on debt, which provides no current benefit) fell by close to five percentage points between 1992 and 2000.

Over the past decade, business capital investment has averaged only 10 per cent of GDP in Ontario, compared to 11.3 per cent in the United States and 12.9 per cent in the rest of Canada. The low rate of investment has created a situation where a significant part of the population is underemployed, and therefore less productive than their potential.

Ontario has had a higher rate of population and labour force growth than the North American average. To achieve growth in the capital stock per worker, Ontario needs a higher rate of capital investment, not a lower one. Without adequate investment, productivity growth will languish.

Balanced policies will help foster the kind of economic environment that brings investment and high-income jobs for Ontario's skilled labour force. Balanced policies mean fiscal balance. As well, balanced policies mean that the scale and design of government spending strengthens Ontario's high quality of life.

One of Ontario's main sources of competitive advantage is its high quality of life. International rankings of the quality of life in major cities consistently rank Toronto among the highest in the world. That is the kind of advantage that matters. Companies know that in a technologically driven global economy, they will only be able to attract and retain educated workers by locating their businesses in places with a high quality of life.

Infrastructure Investment: The Foundation for Prosperity

Ontario has a rich, complex mix of public infrastructure systems worth more than $250 billion—such as education and health facilities, highways, transit, water and sewage treatment systems and other public facilities.

In many sectors, infrastructure investment has lagged economic and population growth, resulting in an infrastructure deficit.

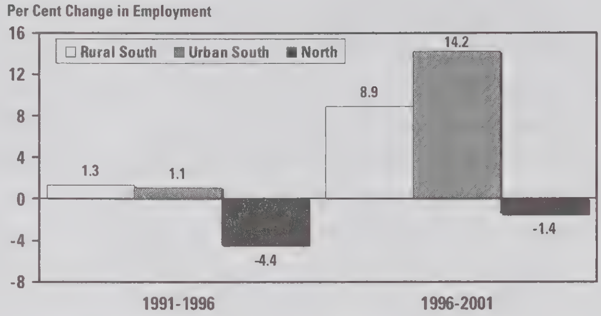
Beginning in 2004-05, the government is taking four key steps to improve Ontario's infrastructure:

- **Emphasize proper stewardship of Ontario's assets.** Much of this year's $2.6 billion infrastructure budget is devoted to the upkeep of existing assets. For example, the government will invest $490 million to rehabilitate and renew the highway system and more than $250 million in clean water initiatives.
- **Implement transformational or institutional change where needed.** The government is proposing to establish a Greater Toronto Transportation Authority to co-ordinate transportation planning and investment in the GTA. In addition, a long-term strategy is being developed to ensure that water and sewage systems are financially sustainable.
- **Improve infrastructure planning in all sectors and make it more forward-looking.** Ontario's first Minister of Public Infrastructure Renewal, with his colleagues, is developing Ontario's first 10-year strategic infrastructure investment plan.
- **Establish new sources of infrastructure funding and new financing tools.** Ontario is entering into agreements with the federal government that will increase both Provincial and federal investments in key infrastructure sectors. The new Ontario Strategic Infrastructure Financing Authority will provide pooled financing for public infrastructure projects. The government has also released a discussion paper, *Building a Better Tomorrow*, and is consulting on the best ways to finance future infrastructure investments. A new framework to guide infrastructure investment projects, based on clear principles, will be released in the near future.

High-quality government services will only add to Ontario's competitive advantage if the government delivers them differently and more efficiently. This will ensure that the taxes charged to pay for these services are reasonable and competitive.

Ontario's regional economies also face challenges that have built up over a period of many years. An important indicator of a region's current and future economic prospects is the rate of population growth. From 1996 to 2003, all of Ontario's regions experienced solid population growth except for Northern Ontario, where total population shrank by 5.3 per cent.

Northern Ontario Employment Lags Other Regions



Source: Statistics Canada 2001 Census.

A fast rate of population growth—as in the Greater Toronto Area (GTA) and Central Ontario, which have experienced large gains from migration—presents unique challenges in accommodating that growth. On the other hand, the challenges of absolute and persistent population loss, as seen in Northern Ontario, present other difficult challenges to overcome. This is particularly the case when an important part of that population loss involves younger residents of the North leaving the region as they seek improved economic prospects. The North's poor labour market performance is reflected in its experience of job losses over the last two census periods.

The government is committed to promoting prosperity in the North by investing in infrastructure, providing support to small and medium-sized businesses, promoting northern communities to outside investors, and working with communities through new Northern Development Councils.

Effective, efficient and fair regulation that safeguards consumer and business interests is also vital for economic growth. In particular, the financial services sector plays a critical role in an economy by providing funds to companies to enable economic growth and job creation, and in providing a range of services to households to support saving, borrowing and investing. The sector is continually changing as innovative new financial products are introduced and new markets develop. Federal and provincial regulators play a role in shaping the environment in which the industry develops and grows. They also have responsibilities to protect consumers in a complex and changing financial marketplace.

The Ontario economy is in an enviable situation. It has an ideal geographic location in the heart of one of the most prosperous markets in the world. It has an excellent physical environment. It has one of the best-educated and healthiest populations in the world. With proper government stewardship, these fundamentals will allow Ontario to regain its status as one of the most prosperous jurisdictions in North America and the world.

A Plan to Promote Northern Prosperity

The government's Northern Prosperity Plan involves a range of targeted initiatives. The government recognizes that infrastructure development is key to supporting the northern economy. In 2004-05, a total of $285 million will be invested in improving the northern transportation system, including highway expansion and rehabilitation projects and other transportation investments. Key projects include expanding portions of Highways 11 and 69, and transforming the Ontario Northland Transportation Commission (ONTC). Another $135 million will be dedicated to investments in community infrastructure initiatives to help foster job creation through the Northern Ontario Heritage Fund. The Province will also continue to support other important capital initiatives. Construction is progressing on the new Northern Ontario Medical School, with campuses at Laurentian University in Sudbury and Lakehead University in Thunder Bay expected to open in September 2005.

The government understands the importance of safe drinking water and a clean environment in Northern Ontario. The Province's investments include $16 million to improve water systems in Sudbury and Thunder Bay and $10 million to help with the cleanup of abandoned mine sites on Crown land.

The government recognizes the importance of economic tools that help small and medium-sized enterprises thrive and create jobs and incomes. To this end, the Province is moving forward on its commitment to establish a Northern Ontario Grow Bonds program that would foster small and medium-sized business development. In 2004-05, the government proposes to establish a pilot program to issue provincially guaranteed bonds and use the proceeds to provide loans to new and growing businesses in northern communities.

The government is dedicating $10 million to a new initiative entitled the Government of Ontario (GO) North Investor program. The objective of this initiative is to build on the Grow Bonds program by attracting anchor investments to northern towns and cities. Ideally, these will be large-scale investments that promote innovation and growth in existing sectors such as mining and forestry, as well as new sectors for the North such as information technology. The focus of the program will be on increasing the North's presence internationally through marketing efforts led by the Ministries of Economic Development and Trade and Northern Development and Mines and by working with northern municipalities to develop an inventory of available sites and assets, to better present their communities' potential to investors.

Finally, a concentrated effort and a clear focus are needed to overcome the special challenges facing Northern Ontario. As a result, we propose to return the definition of Northern Ontario, for the purposes of government policy and program delivery, to what it was before September 2000. The ministries of Northern Development and Mines and of Municipal Affairs and Housing will work with other affected ministries to implement this change in the fall of 2004.

Ontario's Financial Services Sector

To ensure that Ontario-regulated financial enterprises can continue to compete and grow in dynamic local and global markets, and that Ontario consumers continue to be well protected, the government is taking steps to modernize regulatory frameworks in several financial markets. The objective is to enhance the efficiency and effectiveness of Ontario's financial regulation, by eliminating outdated rules that may be hampering economic activity, reducing needless regulatory cost and ensuring strong consumer protection in a changing market environment. As well, it is important to work with other jurisdictions to minimize overlap and duplication in financial services regulation, including regulations applying to deposit-taking institutions and insurance companies.

Mortgage Brokers constitute a fast-growing segment of Canada's mortgage industry, driven by consumers looking for the mortgage best suited to their needs. With the role of mortgage brokers in the industry expected to expand, it is timely for Ontario to modernize its regulatory framework and strengthen consumer protection. The government will review the *Mortgage Brokers Act* with a view to introducing a bill to replace the Act in 2005. In June 2004, Mike Colle, Parliamentary Assistant to the Minister of Finance, will begin discussions on the basis of a Consultation Paper.

Credit Unions and Caisses Populaires are key financial service providers in communities across Ontario. The sector has undergone significant changes in the 10 years since the legislation governing it was enacted. Outdated rules may be hampering the industry's ability to adapt to a changing marketplace. As well, Ontario's laws need to ensure an environment that enables credit unions to take advantage of strategies to strengthen their national presence, and to take account of changes made by other jurisdictions. The government will review the *Credit Unions and Caisses Populaires Act, 1994* with an intent to introduce amendments to this Act and others as necessary by the end of fiscal 2005-06 or earlier if needed.

Financial Services Regulatory Initiatives

- Review of the *Mortgage Brokers Act.*
- Review of the *Credit Unions and Caisses Populaires Act, 1984.*
- Proposal to amend the *Co-operative Corporations Act* to facilitate capital-raising.
- Proposal to extend by one year the registration deadline for trust companies.

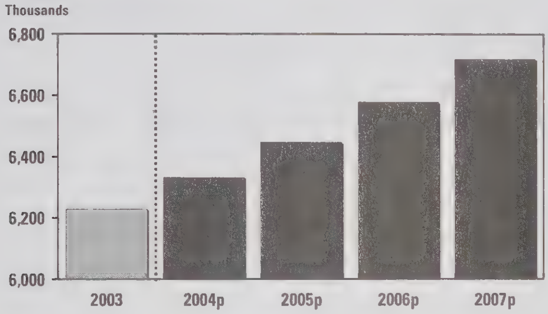
Co-operative Corporations have potential for continued development and growth. To improve their ability to respond to changing market conditions and the needs of their members, the government proposes to make amendments to the *Co-operative Corporations Act.* This would facilitate capital-raising by co-operatives and enhance their ability to attract well-qualified directors and officers.

Loan and Trust Corporations have been taking steps to comply with Ontario's plan to eliminate regulatory duplication in this sector. Ontario is exiting the field of loan and trust regulation, and companies will be subject to federal regulatory requirements only. To assist this transition, the government proposes to make an amendment to the *Loan and Trust Corporations Act.* Trust corporations would be able to apply to the Superintendent of Financial Services for an extension to the July 1, 2004 registration deadline of up to one year.

Job Creation

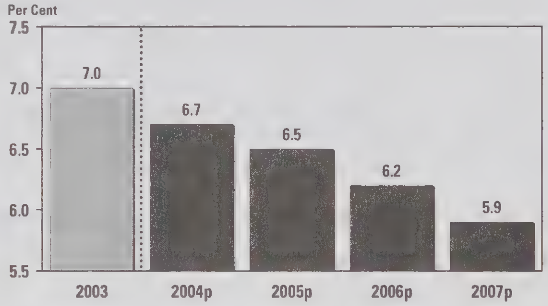
With a growing economy and a skilled and growing labour force, Ontario is expected to create 104,000 jobs in 2004, an increase of 1.7 per cent. Stronger economic growth in 2005 through 2007 is expected to generate further healthy job gains, averaging 2.0 per cent annually. A growing population and rising demand for a wide range of skills and abilities will result in more Ontarians entering the labour market. The proportion of the population in the labour force in 2003 was 68.4 per cent, the highest level reported since 1991. Even with a further rise in the participation rate, the unemployment rate is projected to fall from 7.0 per cent in 2003 to 5.9 per cent in 2007.

Ontario Employment



p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Ontario Unemployment Rate



p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Job creation is the most important source of income growth. Personal income growth slowed from 3.5 per cent in 2002 to 2.3 per cent in 2003. Poor job growth in the middle of the year constrained the gain in labour income to 2.7 per cent, the lowest growth rate since 1996. A 2.3 per cent drop in investment income also contributed to the slowdown.

Personal income is expected to increase by 3.4 per cent in 2004. Improving demand and rising employment will lead to stronger growth in labour income, while the improvement in the stock market is expected to support a mild rebound in investment income. Over the medium term, personal income is projected to rise by 4.5 per cent in 2005, 4.8 per cent in 2006 and 4.9 per cent in 2007.

A Skilled Workforce

An educated and skilled workforce is a competitive advantage and a key factor in investment decisions. In a changing global economy, higher education and training are necessary complements to technological change and new opportunities.

Ontario will continue to support a high-quality and responsive post-secondary education and training system so that skills and labour shortages do not squander potential for economic growth. (See more details in Budget Paper A, *Ontario's Finances*.)

Apprenticeship is key to ensuring that Ontario has the skilled tradespeople the economy requires. Ontario employers will be faced with the challenge of replacing many retiring skilled workers.

To help employers become more active participants in apprenticeship training, this Budget proposes to introduce a new Apprenticeship Training Tax Credit to support training in the industrial, construction, motive power and certain service trades. This tax credit would generate more training spaces for apprentices and increase the availability of skilled workers in key sectors of the economy.

This Budget also supports the expansion of apprenticeship to 26,000 new entrants annually by 2007-08 through new funding of $1 million in 2004-05, rising to $11.7 million annually by 2006-07, to support apprentices' classroom training.

Most new immigrants to Ontario are highly educated. Yet their talents and skills often are not fully utilized, in large part due to lack of recognition of their credentials and experience. This Budget makes investments of $12.5 million annually by 2005-06 to break down barriers to their greater participation in and contribution to the Ontario labour market.

Too many youth drop out of school and end up with poor job prospects. Additional alternative options for helping them gain jobs and complete their education are introduced in this Budget:

- New academic upgrading and training options for high school leavers, with a focus on apprenticeship, with increased funding through the Ministry of Training, Colleges and Universities of $2 million in 2004-05, growing to $15 million in 2007-08.
- Fifteen hundred $1,000 scholarships annually for high school leavers who return to complete their high school credentials and enter apprenticeships, with funding of $3 million in 2004-05, growing to $4.5 million annually by 2005-06. This initiative also includes a $2,000 per-apprentice signing bonus for employers to encourage them to train these young people as apprentices.

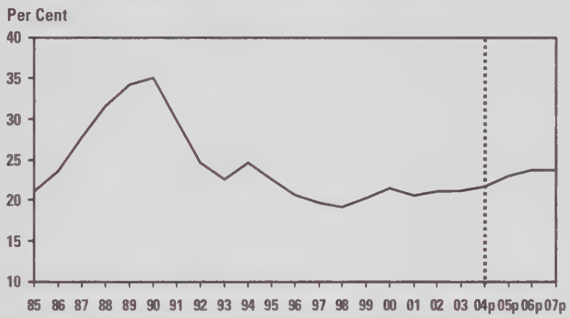
Growing Household Spending

Low interest rates, rising incomes and increasing wealth due to rising home values and stock-market gains will support growing household spending. However, the pace of growth is expected to moderate, reflecting the likelihood that pent-up demand for big-ticket items such as autos has to a large extent been met.

Ontario's housing market is expected to remain healthy in 2004. The current low interest rate environment and steady growth in employment and incomes will encourage high levels of home ownership. Interest rate cuts by the Bank of Canada have seen one-year fixed mortgage rates fall to 4.25 per cent. More people are choosing variable mortgage rates. Currently, the one-year variable mortgage rate is only 3.75 per cent. The current posted rate for a five-year fixed mortgage is 6.15 per cent. Negotiated rates can be 1.0 to 1.8 percentage points below the posted rate.

Ontario's population (15 years of age and older) is expected to grow by an average of 1.6 per cent annually over the next four years. The number of households is forecast to increase by about 300,000 over the same period, leading to a similar increase in the number of dwellings needed to house Ontario's population. The number of starts is projected to remain strong at about 78,000 units in 2004. Over the medium term, as home ownership remains affordable for most Ontario families, housing starts are projected to be healthy.

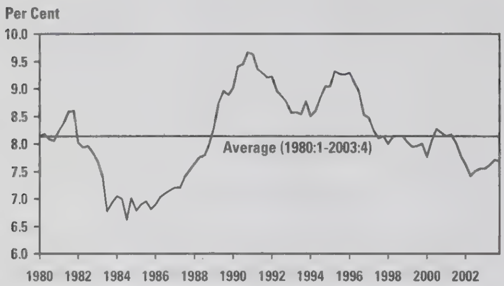
Housing Mortgage Payments as a Share of After-Tax Household Income



p = projection.
Sources: Bank of Canada, Canada Real Estate Association and Ontario Ministry of Finance.

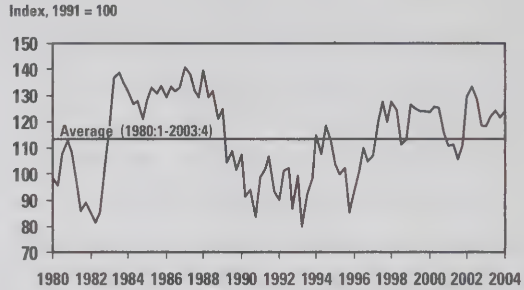
Led by buoyant housing-related expenditures, real consumer spending rose by 3.4 per cent in 2003. However, the pace of spending weakened towards the end of the year. Auto sales eased, with unit sales in the fourth quarter down by close to 17 per cent from the same period in 2002. Although the pace of spending is expected to pick up over the course of the year, average annual growth in real consumer spending is expected to moderate to 2.3 per cent in 2004, reflecting the drop-off in the final months of 2003. Consumer spending is expected to strengthen to 2.9 per cent in 2005, 3.0 per cent in 2006 and 3.2 per cent in 2007, reflecting stronger income growth and continued relatively low interest rates. The anticipated increased value of the Canadian dollar is one of the factors boosting consumers' spending power as imported goods become cheaper.

Canadian Household Debt Interest Costs (Per Cent of Personal Disposable Income)



Sources: Department of Finance Canada and Statistics Canada.

Ontario Consumer Confidence



Source: Conference Board of Canada.

Ontario household finances are in good shape to support consumer spending over the medium term. Low interest rates and steadily rising incomes have helped keep the interest cost of carrying debt at fairly low levels. The ratio of Canadian household debt costs to personal disposable income was 7.7 per cent in the fourth quarter of 2003, below the average of the period from 1980 to 2003. Rising house prices and increases in stock-market share values have boosted net wealth recently and helped underpin robust consumer confidence.

Investment Gains Strength

Increased investment creates better jobs, leading to higher productivity and faster increases in the standard of living. Ontario has a high quality of life and a highly skilled and well-educated workforce attracting innovative businesses that create high-quality jobs. Investments in innovation—including research and development—are catalysts for industry to make better use of economic resources, setting the stage for the next generation of economic growth in Ontario. Ontario's commitment to maintaining a competitive tax system, providing high-quality health care and renewing our infrastructure will help to strengthen the resurgence of investment that is now underway.

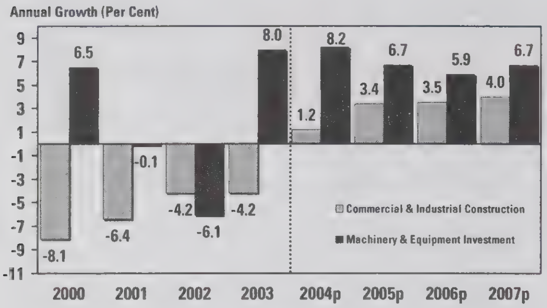
Government's Role in Creating a Positive Investment Climate

Business makes the investment decisions that create jobs and support Ontario's standard of living. Government actions and policies, however, play a crucial role in creating an environment that supports business investment.

- Ontario's public infrastructure must be kept in good repair. Ontario needs to invest to ensure that this infrastructure is able to meet the needs of a growing population and a growing and changing economy.
- Business requires a competitive environment, competitive taxes and a legal system that ensures respect for contracts and for property rights.
- A reliable electricity supply is crucial to the performance of a knowledge-based economy. Unreliable electricity hampers economic growth by causing unanticipated production interruptions and by discouraging investment in new enterprises.
- Ontario's tax system must not only generate the revenues needed to pay for public services, but must also be designed to promote investment and economic growth.
- Businesses and consumers need regulatory systems that effectively and efficiently meet vital public goals such as the protection of health, safety and a clean environment, and the assurance of honest and transparent financial markets.

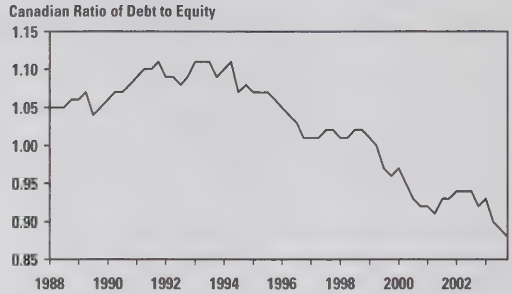
Machinery and equipment investment began to recover in 2003 and is expected to grow strongly over the forecast period. The price of new machinery and equipment has fallen, since it is largely imported. Since machinery has become cheaper relative to wage costs, many companies will look to install new productivity-boosting equipment in order to cut costs and become more efficient. Non-residential construction is expected to turn around in 2004 as firms need to build new space and the government's focus on renewing infrastructure boosts institutional investment spending.

Real Business Investment



p = projection.
Sources: Statistics Canada and Ontario Ministry of Finance.

Business Balance Sheets Are Strong



Source: Statistics Canada.

Corporate balance sheets are also strong and business debt-to-equity ratios have declined. Corporate profits are forecast to grow by 5.8 per cent in 2004 and an average of 5.3 per cent over the period from 2005 to 2007. Healthy balance sheets and favourable financing conditions will support a pickup in investment spending as business responds to increasing demand.

Investment will also be supported by competitive corporate income tax rates. The combined federal and provincial general corporate income tax rate in Ontario will be about 36 per cent in 2004 compared to the current average of about 40 per cent in the United States. In addition to competitive tax rates, employers in Ontario benefit from publicly funded health care, which is a major expense for employers in the United States. U.S. manufacturing employers have a cost of about $2.13 US per hour per worker for health costs.

This Budget is proposing two important pro-investment tax reforms. The proposed gradual elimination of the capital tax would end a tax that does not exist in most other jurisdictions, and is seen as putting Ontario at a disadvantage in competing for investment. In addition, proposed capital cost allowance provisions would allow faster writeoffs on computer and data network infrastructure equipment. These initiatives are vital for Ontario's competitiveness in a high-technology world. The government believes that Ontario's tax laws must provide the proper degree of encouragement.

Conditions that are good for business investment in general are also good for investment in research and development (R&D). Industrial R&D aims to generate new products that will succeed in the marketplace. Industrial R&D also improves businesses' capacity to adopt new technologies and to innovate. The commercial benefits of industry investments in R&D translate to growth in jobs and incomes. Venture capital financing also plays a key role in the early success of companies with the potential for high growth in the most innovative business sectors. Because of the knowledge and skills that follow, venture capital is crucial for bringing innovations to market.

A major challenge is to improve on the commercialization of ideas derived from R&D performed in Ontario. Building on the province's strong scientific research base, the government will expand the focus of its innovation programs to enhance commercialization in Ontario's public research institutions. New funding will help these institutions gain better access to private capital. The Ontario Government will work with the federal government to maximize Ontario's participation in the venture capital initiatives announced in the 2004 federal Budget. In addition, the Task Force on Competitiveness, Productivity and Economic Progress will shift its next phase of research to include commercialization issues.

Investment in Innovation: Industrial R&D and Commercialization of Public Research

A major 2003 study by the Organization for Economic Co-operation and Development (OECD) on the sources of economic growth found a strong relationship between industrial R&D and growth in GDP per capita among OECD countries, including Canada.

- The latest provincial data indicate that a total of $10.3 billion was spent on all R&D in Ontario in 2001, or about 2.3 per cent of the province's GDP. This R&D investment intensity matches the 2001 average for OECD countries.
- Industry accounted for 70.9 per cent of Ontario's R&D expenditures in 2001, which is the highest proportion for all provinces and within range of the U.S. level of 73.3 per cent. Industry in neighbouring U.S. Great Lakes states, however, accounted for an average of 81.6 per cent of their total R&D spending.

Private capital investment also plays a major role in commercializing discoveries from public research institutions. The government is working to ensure that Ontario's high level of scientific output will reach its commercialization potential.

- The government will refocus current innovation programs towards commercialization. A new Ontario Research Commercialization Program will provide $27 million over four years in "proof of principle" funding to help public research institutions attract pre-seed investment.
- The government will provide new funding to strengthen the ability of research institutions to access private capital. Through the Ontario Commercialization Investment Funds program, the government will provide a maximum of $36 million to leverage up to $120 million in new pools of seed capital for spinoff technology companies created by faculty, staff and students (see Budget Paper C, *Ontario's Revenue Plan,* for details).

The Economic Outlook and Ontario Revenues

Ontario's revenue outlook hinges on the province's economic performance. The economic assumptions that have been described and the measures proposed in this Budget underlie Ontario's revenue outlook. Projected revenues are shown in the following table.

Revenue ($ Billions)	**Interim**	**Projection**			
	2003-04	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Taxation Revenue					
Personal Income Tax	17.8	18.8	19.9	21.1	22.4
Retail Sales Tax	14.3	15.0	15.9	16.9	17.8
Corporations Tax	7.2	8.3	8.6	8.9	9.2
Ontario Health Premium	0.0	1.6	2.4	2.5	2.6
All Other Taxes	9.9	10.2	10.9	11.2	11.5
Total Taxation Revenue	49.2	54.0	57.7	60.6	63.5
Government of Canada	10.0	10.8	11.6	11.4	11.8
Income from Government Enterprises	3.1	3.6	4.1	4.0	4.1
Other Non-Tax Revenue*	6.1	10.0	6.4	6.5	6.6
Total Revenue	**68.3**	**78.4**	**79.9**	**82.5**	**86.0**

Note: Numbers may not add due to rounding.

* Includes one-time revenue gain of $3.9 billion related to the projected elimination of the liability for non-utility generator power purchase agreements in 2004-05.

Source: Ontario Ministry of Finance.

Ontario revenues are expected to total $78.4 billion in 2004-05—an increase of $10.1 billion from 2003-04. Over the next three fiscal years (including 2004-05), the average annual increase in total revenue that can be expected is $3.9 billion. This excludes the one-time electricity revenue gain in 2004-05 arising from the proposed elimination of the non-utility generator power purchase contracts liabilities.

Personal Income Tax (PIT) revenues are expected to grow, on average, by 6.0 per cent. This is consistent with the forecast for growth in jobs, wages and incomes in the Ontario economy. PIT revenues grow at a rate faster than incomes because of the progressive structure of the income tax system. This means that individuals with higher real incomes pay proportionately more tax.

Retail Sales Tax (RST) revenues are expected to increase by an average of 5.8 per cent. This is

consistent with the forecast for increased prices and real consumer spending.

Corporations Tax, which includes the Corporate Income Tax, Capital Tax and Insurance Premiums Tax, is anticipated to increase as corporate profits and investment spending grow. This revenue growth reflects the measures contained in the *Fiscal Responsibility Act, 2003* and the measures proposed in this Budget.

Full details of the outlook for Ontario's revenues, including federal transfers and other non-tax revenues, are contained in Budget Paper A, *Ontario's Finances*.

If the economy is stronger or weaker than projected, Provincial revenues will also be stronger or weaker. The following table shows the estimated impact of a one percentage point change in real GDP growth.

Sensitivity of the Revenue Outlook to Changes in Economic Assumptions

The following table shows the sensitivity of Ontario revenues to changes in forecast economic growth.

Cumulative Impact of Changes in Economic Assumptions on Ontario Revenues ($ Millions)

	Full Year 2004-05	Full Year 2005-06	Full Year 2006-07
Sustained 1 Percentage Point Higher Real GDP Growth	580	1,220	1,925

Note: These are average estimates that could vary significantly depending on detailed composition of the divergence from the original forecast.

Source: Ontario Ministry of Finance.

The table below shows the Ministry of Finance's forecast for the Ontario economy through 2007.

The Ontario Economy, 2001 to 2007

	Actual			Projected			
(Per Cent Change)	2001	2002	2003	2004	2005	2006	2007
Real Gross Domestic Product	**1.8**	**3.6**	**1.3**	**2.3**	**3.2**	**3.3**	**3.4**
Personal consumption	2.4	3.6	3.4	2.3	2.9	3.0	3.2
Residential construction	9.2	9.6	5.1	3.4	-1.4	2.7	3.2
Non-residential construction	-6.4	-4.2	-4.2	1.2	3.4	3.5	4.0
Machinery and equipment	-0.1	-6.1	8.0	8.2	6.7	5.9	6.7
Exports	-3.2	2.2	-1.2	2.6	4.4	4.0	3.9
Imports	-5.5	2.9	3.2	3.3	4.3	4.3	4.2
Nominal Gross Domestic Product	**2.8**	**5.6**	**3.2**	**4.1**	**5.0**	**5.2**	**5.3**
Other Economic Indicators							
Retail sales	2.6	5.6	2.8	3.5	4.1	4.1	4.3
Housing starts (000s)	73.3	83.6	85.2	77.6	76.0	75.0	74.0
Personal income	3.6	3.5	2.3	3.4	4.5	4.8	4.9
Wages and salaries*	4.0	4.6	2.7	3.1	4.4	5.1	5.2
Corporate profits	-11.5	16.7	1.6	5.8	4.9	5.0	5.9
Consumer Price Index	3.1	2.0	2.7	1.9	2.1	1.9	1.8
Labour Market							
Employment	1.5	1.8	2.6	1.7	1.8	2.0	2.1
Job creation (000s)	91	105	161	104	114	132	140
Unemployment rate (per cent)	6.3	7.1	7.0	6.7	6.5	6.2	5.9

* Includes supplementary labour income.

Sources: Statistics Canada, Canada Mortgage and Housing Corporation, and Ontario Ministry of Finance.

PAPER C

Ontario's Revenue Plan

Part 1: Paying for Better Health Care

Introduction

Expenditures through the Ministry of Health and Long-Term Care now account for 45 per cent of Provincial program spending, up from 40 per cent a decade ago. Ontario spends an average of $2,441 per person for health care, up from $1,928 in 2000-01. This is about $2,000 more in additional spending per year for a family of four people. Since 2000-01 alone, total operating spending by the Ministry of Health and Long-Term Care has increased by $7.7 billion and has grown at an average annual rate of 7.7 per cent.

This rate of increase is not sustainable, and can only perpetuate the "crowding out" of available funding for other priorities in the future.

The Government of Ontario will provide a health care system that is sustainable and delivers high-quality, results-focused and patient-centred health care to Ontarians where and when it is needed at a level of spending growth that will be more affordable. To achieve the objectives that have been set, the system must be supported with an adequate amount of revenue.

Existing Revenues Are Not Enough

Ontarians understand that health care, by virtue of the extensive knowledge base, complexity of procedures and wide array of providers, imposes significant costs. They also recognize that a number of factors have been placing considerable pressure on Ontario's health care delivery services and driving up costs.

Changing demographics, for example, affect future demand for health care services and the human capital required to provide these services. Ontario's seniors currently make up close to 13 per cent of the population, but account for about 50 per cent of Provincial health spending. The seniors' population in Ontario is expected to rise from 1.5 million in 2003 to almost 3.2 million in 2028.

In addition, transforming how health care is delivered—making it better and more sustainable—requires investments that will buy change and maintain the system so crucial to Ontarians. As the 2002 Kirby report noted, "responsible planning of public policy must include additional funding for health care, including funding the costs of restructuring the system."[1]

It is vital that the health care system be supported with adequate and predictable financing so that health care providers can plan for the services Ontarians need and expect. It is also vital that health care financing be considered in the context of the need to eliminate the deficit.

Ontario Health Premium

Ministry of Health and Long-Term Care costs are up by $2.2 billion in 2004-05 over the previous year.

Increased health spending would support a variety of initiatives to improve and transform the health care system including:

- $111 million for primary care initiatives leading ultimately to 150 primary care teams providing 24/7 health care services;
- providing an additional 21,400 Ontarians with home care in their communities;
- buying 12,000 bed lifts to improve working conditions for nurses;
- improving infectious disease control, adding three new vaccines for children, and implementing a comprehensive tobacco strategy;
- opening 3,760 additional beds to improve safety and quality of care for residents of long-term facilities; and
- supporting an additional 13,650 mental health clients in their communities.

Moreover, the cost of achieving healthier Ontarians is not just found in the budget of the Ministry of Health and Long-Term Care. For example, health services are also provided by the Ministry of Children and Youth Services and the Ministry of Community and Social Services, and the full range of health care determinants also includes such spending as that on clean water and air.

Budget Paper A, *Ontario's Finances*, provides a complete description of the $2.4 billion in additional investments being made in this fiscal year to promote healthier Ontarians.

The government will introduce legislation to create the Ontario Health Premium. The government reviewed a variety of alternatives and determined that this was the best way to raise additional revenue to support initiatives to improve and transform health care.

The proposed premiums would rise with income. Proposed premiums compare to typical health services as follows:

- the average cost of one night in hospital is $851, which is about $100 more than a person who earns $75,000 annually would pay as a premium;
- a normal birth costs about $1,570, which is roughly equal to five years' annual premiums for an individual earning $30,000 per year;
- the average cost of an MRI, $290, is just under one year's premium for an individual who earns $25,000 annually; and

- covering the cost of treating one person who has suffered a heart attack requires premiums from more than 10 people earning $40,000 per year.

The Kirby report recognized that health care premiums could constitute a visible and equitable means of raising money for the purposes of health care if the premiums vary in proportion to income.[2] The report also acknowledged the practicality of collecting a premium through the income tax structure rather than through a separate administration. The health care premium proposed in this Budget is consistent with that advice.

By raising revenues to fund health care, this government will be able to move forward in other areas that are priorities for Ontarians—education, help for the most vulnerable and eliminating the deficit.

The Federal Government Plays an Important Role

The Government of Ontario recognizes that the federal government has a role to play in providing health care for all Canadians. Additional federal funding is necessary to allow for reform of the system and continuing improvements that Ontarians—like Canadians everywhere—have come to expect.

The Kirby report observed that "Canadians want the provinces, the territories and the federal government to work collaboratively in partnership to facilitate health care renewal. Canadians are impatient with blame-laying; they want intergovernmental co-operation and positive results."[3] The Romanow report, too, noted the need for a "truly national approach to medicare."[3a]

This government will not perpetuate the "blame game" of the past or suggest that all of Ontario's fiscal challenges are, in one way or another, the federal government's fault. In fact, this government acknowledges the very important improvements that the federal government has made to its health and social transfer payments in the last several years.

But there is more that the federal government can and must do to ensure that our health care system remains sustainable.

Health care in Canada is set out in the Constitution as a provincial responsibility. But health care in Canada is more than just another provincial spending program. Prime Minister Paul Martin had it right when he said that "there is no other issue of such vital and visceral significance to Canadians. Nowhere does government interact with people in a more meaningful and consequential way."[4]

The federal government has a vital role to play in the future of Canada's health care system. A variety of studies have concluded that there is a fundamental mismatch of revenue-raising and expenditure responsibility in Canada. The 2004 federal budget forecast a budgetary surplus of $4 billion this year.

A recent study released by the Conference Board of Canada shows that federal surpluses are predicted to rise steadily over the next 17 years, reaching $78 billion by 2019-20. In sharp contrast, the provinces and territories will be in an aggregate deficit position throughout the same forecast period. The total provincial/territorial deficit for all provinces is expected to reach $11 billion by 2019-20.[5]

Quite simply, federal-provincial fiscal arrangements have not kept pace with change. As the Romanow report noted, "the time has come for Ottawa to once again take on more of an equity position in the medicare enterprise."[6] Putting health care on a sustainable footing in the coming years will require additional federal funding, and the federal government has the ability to provide that funding.

The Government of Ontario is not simply asking the federal government to open its cheque book. Ontario does not expect the federal government to provide increased funding without any sense of how the funding will be used, what goals it will further or the outcomes it will support. Ontario has a plan for investments in health care that will achieve tangible, improved results for Ontarians. The federal government's increased fiscal participation is key to ensuring that adequate investments are made across the full range of health determinants towards the achievement of Ontario's ultimate objective: healthier Ontarians.

This government sees the federal government as an important partner in keeping Canada's health care system not only sustainable, but also a matter of national pride and international envy. Ontario is ready to work with the federal government and the other provinces to achieve a sustainable health care system.

Part 2: Revenue Measures

The following sections provide information on the revenue measures proposed in the Budget. For a precise description of these measures, the reader is advised to consult the amending legislation once approved by the legislature.

Ontario Health Premium

Structure and Application

This Budget proposes the introduction of a new health care premium. The premium proposed in this Budget is unrelated to eligibility for health care services.

Unlike the old OHIP program, the health premium proposed in this Budget would increase as income rises. When fully implemented, individuals with incomes below $20,000 would pay nothing; individuals with modest incomes would pay $300 per year; and individuals with higher incomes would pay a maximum of $900 per year. The premium structure would be as follows:

	Proposed Premium	
Taxable Income	2004 Taxation Year	2005 and Subsequent Taxation Years
up to $20,000	$0	$0
$20,000 - $36,000	$150	$300
$36,000 - $48,000	$225	$450
$48,000 - $72,000	$300	$600
$72,000 - $200,000	$375	$750
more than $200,000	$450	$900

The first premium level would be phased in at six per cent of taxable income in excess of $20,000, with the full premium payable at taxable income of $25,000. For example, an individual with taxable income of $22,000 would pay $120 in 2005. Each subsequent increase in premium level would be phased in over the first $600 of taxable income in that range at a rate of 25 per cent. The phase-in rates for 2004 would be one-half the rates for 2005. As a result, the premium for 2004 would be $60 for an individual with taxable income of $22,000.

The premium would apply to individuals who are residents of Ontario on the last day of their taxation year. Trusts and non-resident taxpayers would be exempt from the premium.

Individuals who become bankrupt during the year would be required to pay the premium based on their taxable income for the full calendar year. For individuals who die or emigrate from Canada

during the year, the premium would be determined based on taxable income reported in the final Ontario tax return.

Administration

To simplify compliance for premium payers and minimize administrative expenses, the Province will work with the Canada Revenue Agency to collect and administer the premium on Ontario's behalf.

Since the premium is proposed to be implemented through the *Income Tax Act* and administered under the existing Tax Collection Agreement between Ontario and the federal government, income tax withholding and instalment rules would apply.

Withholdings will commence July 1, 2004. To ensure that employers do not incur added costs to change their payroll systems, the premium would be included on pay stubs as a component of the income tax withheld. Individuals who make income tax instalment payments will have the option of adding the proposed premium to the remaining instalment payments for 2004 and the first two instalments in 2005. Individuals would determine the actual amount of the premium on their annual tax returns.

Legislative Review

A full review of the premium by a committee of the legislature is proposed to take place by 2009.

Corporate Tax Measures to Encourage Economic Growth

Plan to Eliminate the Capital Tax

Ontario's capital tax is widely recognized as a barrier to attracting the investment that Ontario needs to build an innovative economy of high-wage and high-skill jobs. The government proposes to implement a fiscally prudent plan to gradually eliminate the capital tax by 2012:

- Starting January 1, 2005, the current $5 million deduction from taxable paid-up capital would be increased by $2.5 million each year until the deduction reaches $15 million on January 1, 2008. By that time, in addition to small businesses that do not pay capital tax, more than 13,000 medium-sized corporations would no longer pay capital tax.
- Starting January 1, 2009, capital tax rates would be reduced each year until the capital tax is fully eliminated on January 1, 2012.

The following table sets out the government's proposed plan to eliminate the capital tax:

			Financial Institutions		
				Taxable Capital Above $400 Million	
	Deduction ($ Millions)	Regular Corporations (%)	First $400 Million of Taxable Capital (%)	Non-Deposit Taking (%)	Deposit Taking (%)
Current	5	0.300	0.600	0.720	0.900
January 1, 2005	7.5	0.300	0.600	0.720	0.900
January 1, 2006	10.0	0.300	0.600	0.720	0.900
January 1, 2007	12.5	0.300	0.600	0.720	0.900
January 1, 2008	15	0.300	0.600	0.720	0.900
January 1, 2009	15	0.225	0.450	0.540	0.675
January 1, 2010	15	0.150	0.300	0.360	0.450
January 1, 2011	15	0.075	0.150	0.180	0.225
January 1, 2012			Eliminated		

The proposed increases in the deduction and the cuts to the tax rates would be pro-rated for taxation years straddling the effective dates.

Capital Cost Allowance Enhancements

In order to help Ontario businesses put the right tools in place to build an innovative economy of high-wage and high-skill workers, this Budget proposes to enhance the capital cost allowance (CCA) for newly acquired computer and data network infrastructure equipment.

Ontario proposes to parallel the CCA changes announced in the 2004 federal budget. This includes the CCA rate increase from 30 per cent to 45 per cent for computer equipment and the rate increase from 20 per cent to 30 per cent for data network infrastructure equipment acquired after March 22, 2004.

Enhancements to the Ontario Film and Television Tax Credit

Ontario's domestic film and television industry contributes significantly to Ontario, both economically and culturally. In 2003, Provincial support to the film and television industry levered over $500 million in activity from 133 domestic productions.[7] Ontario's film and television production, distribution and exhibition industries employ about 20,000 workers.[8]

The Ontario Film and Television Tax Credit (OFTTC) helps support this sector by providing

Ontario-based, Canadian-controlled production companies with a 20 per cent refundable tax credit on Ontario labour expenditures incurred in making film and television productions.

To further encourage production activity in Ontario, this Budget proposes to enhance the OFTTC.

Effective for productions commencing principal photography after March 27, 2003, qualifying labour expenditures would not be reduced by equity investments from Canadian government film agencies.

The OFTTC would also be amended to parallel the following enhancements to the federal Canadian Film or Video Production Tax Credit announced on November 14, 2003, including their effective dates:

- the extension to the commencement time for a production, which would allow qualifying labour expenditures to be incurred as early as two years before principal photography begins; and
- the provision allowing a person, other than the production company, to hold an interest in a film or television production, unless the production or one of the investors is associated with a tax shelter.

Apprenticeship Training Tax Credit

As part of building a solid foundation to support a new generation of economic growth, the government proposes to introduce a new Apprenticeship Training Tax Credit (ATTC) to encourage the hiring of apprentices in certain skilled trades. The ATTC would complement other apprenticeship program measures that are being announced in this Budget to help increase the availability of skilled workers in key sectors of the economy.

Tax Incentive

Corporations and unincorporated businesses would be eligible for a 25 per cent refundable tax credit on eligible expenditures incurred with respect to eligible apprentices. For businesses with total payroll costs not exceeding $400,000, the tax credit rate would be increased to 30 per cent.

An employer would be eligible for a tax credit of up to $5,000 per year per eligible apprentice to a maximum of $15,000 over the first 36 months of the apprenticeship. The maximum annual tax credit of $5,000 would be pro-rated for the number of days the apprentice is employed with that employer during the year.

Eligible Apprentices
Eligible apprentices would be in their first 36 months of an apprenticeship training program in a qualifying skilled trade on or after May 19, 2004 and have commenced employment before January 1, 2008.

Eligible Expenditures
Eligible expenditures would be salaries and wages paid after May 18, 2004 and before January 1, 2011 to an eligible apprentice.

Qualifying Skilled Trades
Qualifying skilled trades would include designated construction, industrial and motive power trades, as well as the service trades eligible under the present apprenticeship component of the Co-operative Education Tax Credit.

Sunset Provision
Prior to December 31, 2007, the government would consult with stakeholders on the effectiveness of the ATTC. Stakeholders would be expected to provide evidence of the tax credit's effectiveness as a condition for continuing the incentive program.

Revising the Co-operative Education Tax Credit (CETC)
The CETC provides employers with a 10 per cent refundable tax credit (15 per cent for small businesses) on the salaries and wages paid to students or apprentices in qualifying work placements.

The following changes are proposed to the CETC:

- The CETC would continue to be available for qualifying co-op placements.
- Transitional rules are proposed for apprenticeships in their first 36 months that straddle May 18, 2004. Salaries and wages paid before May 19, 2004 would qualify for the CETC, and amounts paid after May 18, 2004 would qualify for the proposed ATTC.
- For apprenticeships not in their first 36 months and for work placements in approved fields of study other than co-operative education programs, no deduction may be claimed for salaries and wages paid after December 31, 2004. Since a minimum initial employment of 10 weeks is required for the CETC, employment commencing after October 25, 2004 would not qualify. These fields of study are listed in Appendix 2 of Tax Legislation Bulletin 96-2R2.

Apprenticeship Training Tax Credit (ATTC)
Skilled trades qualifying for the ATTC would include:

Construction Trades
Plumber
Sheet metal worker
Electrician
Refrigeration and air conditioning mechanic
Brick and stone mason
General carpenter
Ironworker
Hoisting engineer
Power lineworkers

Industrial Trades
General machinist
Tool and die maker
Machine tool design
Industrial electrician
Industrial mechanic (millwright)
Precision metal fabricator
Cabinet maker
Mould maker

Motive Power Trades
Automotive service technician
Fuel and electrical systems technician
Auto body and collision damage repairman
Truck and coach technician
Motive power machinist
Heavy duty equipment technician
Marine engine mechanic

Services Trades[9]
Electronic service technician
Micro-electronics manufacturer
Network cabling specialist
Information technology support analyst

Resource Allowance

Effective for taxation years ending after December 31, 2002, the federal government has implemented legislation that replaces the 25 per cent resource allowance with a deduction for Crown royalties and mining taxes paid.

To support the jobs and investment created by the mining sector in northern communities, Ontario proposes not to parallel the federal measure. Instead, Ontario would maintain the resource allowance and the non-deductibility of Crown royalties and mining taxes retroactive to the commencement of the federal change.

Enrichment of Property Tax Credit

Ontario property and sales tax credits for seniors were established in 1992 to provide additional assistance to seniors with modest incomes and have remained unchanged since their creation. This government is proposing to enhance the program for the first time to ensure that it better reflects the circumstances facing seniors in Ontario today.

Lower-income seniors who own or rent their homes would be eligible for additional assistance through the Ontario property and sales tax credits, effective for the 2004 and subsequent taxation years. The underlying "basic" property tax credit amount would be increased by $125, or 25 per cent, from $500 to $625. In addition, to ensure that seniors currently receiving the maximum basic property tax credit amount would benefit fully from the proposed $125 enrichment, the maximum benefit available for the property and sales tax credits for seniors would be increased from $1,000 to $1,125.

This improvement would deliver an estimated $85 million in benefits to about 685,000 senior families, including approximately 33,000 senior families who do not currently benefit from the credit.

Other Revenue Measures

Federal Concordance

Subject to any necessary modifications, Ontario proposes to parallel the following income tax measures announced in the federal budget of March 23, 2004 as they apply to corporations and their effective dates:

- the extension of the carry-forward period for business losses from seven to 10 years;
- the limits on the deductibility of fines and penalties, patronage dividends and unused charitable donations; and
- the amendments to the general anti-avoidance rule and the affiliated persons rules.

Also, it is proposed that the relaxation of the associated corporations rule for purposes of the $2 million expenditure limit under the refundable portion of the federal investment tax credit for scientific research and experimental development would apply to the Ontario Innovation Tax Credit.

Retail Sales Tax Act

One-Year Retail Sales Tax (RST) Exemption for Destination Marketing Fees

In support of the hotel industry's initiative in funding tourism marketing and assisting in the recovery of Ontario's tourism industry, it is proposed that the destination marketing fee be exempt from RST for a one-year period.

The temporary exemption from the five per cent RST accommodations tax on this fee would be

effective for destination marketing fees billed after May 18, 2004 and before May 19, 2005.

Retail Sales Tax Rebate for Wind, Micro-Hydroelectric and Geothermal Energy Systems for Residential Premises

The government will be proposing legislation to expand the RST rebate for solar energy systems to include wind energy systems, micro-hydroelectric systems and geothermal heating/cooling systems for residential premises. This proposal recognizes that these systems enable homeowners to be more energy self-sufficient using clean, renewable energy.

The rebate would be available for purchases made after March 27, 2003 and before November 26, 2007.

Tobacco Tax Act

Tobacco Tax Increase

In support of the government's Ontario Tobacco Strategy, Ontario is taking the second step in its commitment to bring tobacco tax rates up to the national average.

As of 12:01 a.m., May 19, 2004, tobacco tax rates in Ontario would be:

- 11.1¢ per cigarette, tobacco stick or gram of cut tobacco.

Legislative amendments will be introduced to provide the Minister of Finance with regulatory authority to prescribe future tobacco tax rates, and to set differential tobacco tax rates for certain tobacco products.

Improved Enforcement

Ontario's tobacco marketplace is being affected by unregulated contraband tobacco and unauthorized distribution activities. In order to minimize the availability of such tobacco, especially to youth, and to protect tobacco tax revenue, a number of initiatives will be proposed. These include:

- increasing the minimum level for court-imposed fines to $500 or $1,000, depending on the offence; and
- increasing offences and penalties for individuals distributing tobacco without authorization, including increased sanctions for repeat offenders.

Revenue from Spirits, Wine and Beer

The following changes will be effective June 21, 2004.

- The volume levy applied to each litre of spirits will increase by 25 cents. The new volume levy for spirits will be 54 cents per litre.
- The volume levy applied to each litre of wine coolers and spirit coolers will increase by 9 cents. The new volume levy for wine coolers and spirit coolers will be 28 cents per litre.
- The wine levy will increase by 12 cents per litre. The new wine levy will be $1.62 per litre.
- The brewers' basic fee will increase by 4.5 cents per litre.
  - The new brewers' basic fee for beer shipped in containers with a capacity of less than 18 litres (regular beer) will be 55.55 cents per litre.
  - The new brewers' basic fee for beer shipped in containers with a capacity equal to or greater than 18 litres (draught) will be 40.55 cents per litre.

While the definition of a microbrewery is unchanged, the new brewers' basic fee rates for a microbrewery will change according to the following schedule:

- 5.56 cents per litre for regular beer and 4.06 cents per litre for draught on the first 15,000 hectolitres of beer shipped in Ontario on or after June 21, 2004;
- 13.89 cents per litre for regular beer and 10.14 cents per litre for draught on the next 15,000 hectolitres of beer shipped in Ontario on or after June 21, 2004;
- 27.78 cents per litre for regular beer and 20.28 cents per litre for draught on the next 20,000 hectolitres of beer shipped in Ontario on or after June 21, 2004;
- 41.66 cents per litre for regular beer and 30.41 cents per litre for draught on the next 25,000 hectolitres of beer shipped in Ontario on or after June 21, 2004;
- 50.00 cents per litre for regular beer and 36.50 cents per litre for draught on the next 75,000 hectolitres, up to 150,000 hectolitres of beer shipped in Ontario on or after June 21, 2004; and
- 55.55 cents per litre for regular beer and 40.55 cents per litre for draught when over 150,000 hectolitres of beer is shipped in Ontario on or after June 21, 2004.

The brewers' basic fee applicable to brew pubs will change in accordance with the above changes. The new brewers' basic fee component will be 4.06 cents per litre. The new rates for holders of a Brew Pub endorsement are:

- 6.70 cents per litre for beer sold at the location where it is manufactured; and
- 24.30 cents per litre for beer sold at other authorized locations.

Support for Ontario's Wine Strategy and the Ontario Small Brewers' Association Strategy

To assist the domestic wine and microbrewery sectors in their development and to help these sectors fulfil the goals of their respective strategic plans, the Province will commit marketing support of $2 million annually for a five-year term to the Ontario Wine Strategy and $1 million annually for a five-year term to the Ontario Small Brewers' Association Strategy. This funding will be available commencing January 1, 2005.

Driver's Licence Fee

Effective September 1, 2004, the driver's licence fee will be increased from $50 to $75 per five-year period. The portion of the driver's licence fee earmarked to the Motor Vehicle Accident Claims Fund will rise from $5 to $15 per five-year period.

Other Fees and Charges

In the public consultations undertaken by the government, Ontarians repeatedly expressed their desire to see those individuals and businesses that benefit from a government service pay a greater share of the cost of providing the service, rather than having the taxpayer subsidize a portion of the costs. As part of the Budgeting for Results process that the government is beginning to implement this year, ministries brought forward proposals that more closely link the cost of providing a service and the associated benefits received by the individual or business to the fee or charge.

The table below lists the major changes to fees and charges that the government will be implementing later this year or early next year.

MAJOR COST-RECOVERY FEES AND CHARGES

Fees or Charges	Change (From/To)	Revenue Increase ($ Millions) 2004-05	Mature
▸ Increased Cost-Recovery from Workplace Safety and Insurance Board for the Expansion of Occupational Health and Safety Program	84% to 100% Cost-Recovery	18	37
▸ Civil Court Fee*—Fees to File Various Civil Court Claims including:		3	6
a. Issuing Statement of Claim	$157 to $181		
b. Filing a Statement of Defence	$125 to $144		
▸ Reinstate Suspended Driver's Licence	$100 to $150	1	5
▸ Small Claims Court Fees* including:		2	5
a. Issuing a Summons to Witness	$10 to $19		
b. Filing a Defence	$25 to $40		
▸ Rental of Hydro Lands—Charges for the Use of Hydro Transmission Corridor Lands	Greater Cost-Recovery	3	4

* The Ministry of the Attorney General is considering options for the waiver of court fees for financially disadvantaged litigants.

While the additional revenue generated from these changes in fees and charges is small relative to the overall size of the Provincial budget, it does reflect Ontarians' desire to see the government proceed with a user-pay approach to many of the services it provides. Further details of the major fee changes outlined above, as well as other smaller fee changes, will be provided by the individual ministries responsible, once arrangements and details are finalized.

Technical Measures

Corporations Tax Act

Amendments are proposed to the definition of "current accounts payable" for capital tax purposes. These amendments respond to the court decision in *QEW 427 Dodge Chrysler (1991) Inc.*, which held that current accounts payable include amounts owed to creditors and not just suppliers.

- Effective for taxation years ending after May 18, 2004, the definition of current accounts payable would be amended to confirm that it applies only to amounts payable to a supplier for purchases of goods and services.
- The proposed amendments would also clarify that liabilities incurred in connection with the purchase or trading of shares, bonds or other securities are not considered current accounts payable, effective for taxation years ending after May 19, 1993.

Employer Health Tax Act

Changing the Instalment Base to Coincide with the Liability Base

Currently, employers are expected to remit Employer Health Tax (EHT) instalments on the 15th day of each month, using an estimate based on the prior month's payroll. To simplify the process of remitting instalments, payments will be based on the actual payroll for each month and will be due on the 15th day of the following month.

This proposed new system will also simplify the preparation of the annual EHT return, by virtually eliminating any overpayments or underpayments of tax during the year, because both the instalment and liability will be based on the same payroll stream.

This initiative will be effective January 1, 2005. In order to change to the new system, employers will not be required to remit an instalment in January 2005. Instead, their first instalment will be due on February 15, 2005, based on remuneration for January 2005.

Permanent Establishments

Ontario's EHT is payable by all employers, including private companies, schools, hospitals, not-for-profit organizations, municipalities, the Government of Ontario and the Government of Canada.

On April 27, 2004, the Ontario Superior Court of Justice ruled that Ontario-based professional sports teams should not have to pay EHT with respect to salaries paid to players and others for games played outside Ontario.

For greater certainty, it is proposed that the existing EHT legislation be amended to clarify that as long as a person reports to work at a permanent establishment in Ontario, all of that employee's remuneration is subject to EHT. The April 27, 2004 judgment will be appealed.

This measure would be retroactive to January 1, 1990.

Taxable Benefits

Employer Health Tax is calculated based on remuneration paid to employees. Remuneration includes all payments, benefits and allowances received or deemed to be received by an individual that are, by reason of section 5, 6 or 7 of the *Income Tax Act* (Canada), required to be included in the income of the individual for federal income tax purposes. Since the inception of the EHT, any amount that is subject to income tax under the above sections of the *Income Tax Act* (Canada) is remuneration for EHT purposes.

In order to preserve the integrity of the EHT base, legislation will be proposed to clarify that amounts included in an employee's income by reason of section 5, 6 or 7 of the *Income Tax Act* (Canada) continue to be taxable for EHT purposes. These amounts would include automobile benefits, low-interest employee loans, and employee group term life insurance.

This measure would be retroactive to January 1, 1990.

Increasing Employer Health Tax Late-Filing Penalties

Amendments to the *Employer Health Tax Act* would be proposed to increase penalties levied for late-filed returns to be consistent with those levied under the *Corporations Tax Act* as a means to improve compliance. Where tax is owing, late-filing penalties would be imposed of up to 17 per cent of the tax owing, escalating to 50 per cent for repeat late-filers. This measure would be effective for taxation years ending after May 18, 2004.

Electricity Act, 1998

To improve the policy and administrative effectiveness of the transfer tax and payments in lieu of corporate taxes, amendments to the *Electricity Act, 1998* (the Act) are proposed:

- The Act would be amended to confirm that holding companies that acquire, hold, dispose of or otherwise deal with shares of a corporation established pursuant to section 142 of the Act are considered municipal electricity utilities. The proposed amendments would apply to:
  - a holding company established by one or more municipalities after November 6, 1998 and before May 2, 2003; and
  - a holding company established by a municipality after May 1, 2003 under the *Municipal Act, 2001*.

- Currently, any underpayment or non-payment of transfer tax voids a sale of electricity assets. It is proposed that the Minister of Finance be given authority to prescribe exceptions to this rule upon payment of the tax and any interest and penalties—for example, where transfer tax is paid in good faith but an underpayment arises from an assessment.
- Transfer tax was intended as a one-time tax on the transfer of electricity assets. However, when a taxpayer reinvests the after-tax proceeds of a transfer in other electricity assets and those other assets are also transferred, transfer tax may be levied on the second transfer. The effect is a "cascading" of transfer tax on the reinvested proceeds. It is proposed that the Minister of Finance be authorized to set rules to relieve this "cascading" of transfer tax.
- Transfer tax payable can be reduced by federal capital gains tax incurred on a transfer of electricity assets. This Budget proposes to extend the transfer tax offset to include federal tax payable on gains arising from the transfer of eligible capital property. This amendment would be effective November 7, 1998.

Highway Traffic Act

Amendments to the *Highway Traffic Act* will be proposed to clarify that simple interest, rather than compound interest, is to be charged on assessments of fees and taxes owed to Ontario and other jurisdictions by registrants in the International Registration Plan (IRP). Registrants would be required to retain records relating to IRP registration for a minimum of five years.

Income Tax Act

To redress the calculation of the Ontario Tax Reduction so the benefit goes only to those who need it most, the government proposes to amend the *Income Tax Act* so that individuals must calculate the tax reduction before claiming foreign tax credits. The amendment would be effective as of the 2004 tax year.

The tax rate for Qualifying Environmental Trusts would be increased to 14 per cent. This proposed amendment is consequential to the amendment to corporate tax rates approved in the *Fiscal Responsibility Act, 2003*. The new rate would be effective as of January 1, 2004.

Land Transfer Tax Act

It is proposed that the *Land Transfer Tax Act* be amended to enhance land transfer tax collection procedures for electronic registrations, including setting out collector obligations similar to those found in other statutes.

Retail Sales Tax Act

Transfer of Assets Between Related Corporations and Partnerships Rules

Proposals to modernize the retail sales tax rules relating to exempt transfers of assets between related corporations have been developed. In addition, rules for the transfer of assets between partnerships

and their principals would be regulated and would be made consistent with the rules for related corporations. A draft regulation setting out the proposed rules will be posted on the Ministry of Finance's Web site for industry comment with the view to finalizing the proposals in the fall of 2004. The proposed effective date would be the release date of the draft regulations.

Property Tax

Stability, Flexibility and Fairness Measures

In recent months, the government has received extensive input from municipalities and taxpayers on ways to improve the stability, fairness, flexibility and simplicity of the property tax system. This consultative process has led to the development of the initiatives outlined below that would be implemented starting in the 2005 taxation year.

Assessment Cycle

Since the province-wide implementation of current value assessment (CVA) in 1998, there have been four reassessments:

- 1998 reassessment based on property values as of June 30, 1996;
- 2001 reassessment based on property values as of June 30, 1999;
- 2003 reassessment based on property values as of June 30, 2001; and
- 2004 reassessment based on property values as of June 30, 2003.

The 2004 reassessment marked the first year of the mature assessment cycle that was intended to be applied to all successive taxation years, with annual reassessments being conducted based on property values as of June 30 of the preceding year. However, after its first year of implementation, the parties involved in the assessment process have indicated that this cycle does not provide sufficient time. Specifically:

- the current cycle does not provide sufficient time for the Municipal Property Assessment Corporation (MPAC) to prepare accurate assessments for the more than 4.3 million properties in Ontario;
- the current cycle does not provide taxpayers with sufficient opportunity to review their new assessed values and have errors corrected before the roll is finalized, resulting in an increased need to file appeals; and
- the current cycle does not enable municipalities to conduct impact analysis and tax policy deliberations in a timely fashion prior to the finalization of budgets and tax rates for the year.

To address all of these challenges, the government intends to introduce legislation to alter the timelines of the assessment cycle.

Under the proposed new cycle, which would be implemented for the 2006 taxation year, reassessments would be based on property values as of January 1 of the year preceding the taxation year—six months earlier than the current valuation date of June 30. For example, for the 2006 taxation year, assessments would be based on property values as of January 1, 2005.

To facilitate the transition from the current June 30 cycle to the proposed new January 1 cycle, the government proposes to cancel the reassessment that would have been conducted for the 2005 taxation year. Property assessments for the 2005 taxation year would be based on the same valuation date as the 2004 assessments—that is, June 30, 2003.

For future years, reassessments would be conducted annually.

Assessment Averaging

The property tax reform legislation that was enacted in 1997 included a plan for assessments to be based on averaged property values starting in the 2005 taxation year. Specifically:

- in 2005, the taxes on each property would be based on an average of the current values of the property from two years (2004 and 2005); and
- in 2006 and future years, the taxes on each property would be based on an average of the current values from three successive years (current year plus the two preceding years).

During recent consultations, the government received advice from stakeholders to defer or cancel the implementation of assessment averaging. It is widely felt that assessment averaging would add complexity to the property tax system, would not enhance fairness for taxpayers, and would be redundant with existing property tax mitigation tools.

In consideration of the challenges that would be posed by the implementation of averaging in 2005, the government intends to introduce legislation to defer the implementation of assessment averaging.

The government plans to proceed with analysis and consultation on alternative assessment stabilization measures for residential and business properties for 2006 and future reassessment years. Research will focus on developing tools that:

- address taxpayer concerns with assessment volatility for individual properties;
- ensure fairness for all property owners, both those experiencing increases and those experiencing decreases; and
- are administratively feasible for municipalities and MPAC.

Cap on Tax Increases Related to Reassessments

When current value assessment (CVA) was implemented on a province-wide basis in 1998, a mandatory tax-capping program was also introduced to provide for a gradual phase-in of the impacts of CVA for commercial, industrial and multi-residential properties.

Under this capping program, municipalities are required to limit the annual assessment-related tax increases on these properties to five per cent of the previous year's taxes. (Municipal tax increases are permitted on top of this five per cent where budgetary levy increases are applied.)

In order to recoup the revenue that is lost from limiting taxes on properties facing increases, municipalities may limit or "claw back" the decreases of properties whose taxes are declining under CVA.

Municipalities and taxpayers have identified several concerns with the capping program, including the embedded historical tax inequities, the very slow rate of progress towards CVA, and the complexity of the system that leads to a lack of transparency for property owners and administrative costs for municipalities. The preferential treatment applied to newly constructed properties is seen as exacerbating these issues.

To address these concerns, the government intends to introduce legislation to provide municipalities with a range of options to modify the tax-capping program in order to increase progress towards CVA. Under these proposed options, which would be available for 2005 and future taxation years:

- municipalities could increase the amount of the annual cap from 5 per cent to up to 10 per cent of previous year's taxes;
- municipalities could implement a minimum annual increase for capped properties of up to 5 per cent of CVA-level taxes;
- municipalities could move capped or clawed-back properties directly to their CVA taxes if they are within $250 of their CVA taxes;
- municipalities could phase out the "new construction treatment" by creating floors establishing a minimum percentage of CVA tax responsibility, such that eligible properties would be taxed at:
  - up to 70 per cent of CVA-level taxes in 2005;
  - up to 80 per cent of CVA-level taxes in 2006;
  - up to 90 per cent of CVA-level taxes in 2007; and
  - up to 100 per cent of CVA-level taxes in 2008 and future years.

These proposed enhancements to the capping program would facilitate the transition to CVA while still maintaining a manageable pace of change for property owners. Leaving the decision as a

municipal option would allow local governments to respond to local conditions.

The government will continue to analyse progress under the capping program and consult on the development of additional assessment stabilization measures that could be introduced as business properties complete the transition to CVA.

Small Business

Discussions have also been held with stakeholders about further flexibility to address the needs of small businesses in their communities.

Currently, municipalities have two options available to target tax reductions to smaller and lower-valued properties:

- graduated tax rates can be applied across the entire commercial and/or industrial property classes to apply lower tax rates to the lower portion of properties' assessments; and
- optional property classes can be used to adjust the tax burden of specific types of properties within the commercial and industrial classes.

The government intends to introduce legislation to enhance these mechanisms by giving municipalities the option to combine these measures and apply graduated tax rates at the optional property class level.

The government will continue to consult with representatives from the municipal and business sectors to discuss further options for targeting tax reductions to small business properties.

Fostering Environmental Stewardship and Rehabilitation

Conservation Land

In 1998, a property tax exemption program was created for conservation land to recognize, encourage and support the long-term stewardship of ecologically sensitive lands. This tax exemption is currently available to the following categories of lands:

- land identified by the Minister of Natural Resources as *provincially significant wetland*;
- land identified by the Minister of Natural Resources as a *provincially significant area of natural and scientific interest*;
- land identified by the Minister of Natural Resources as a *habitat of endangered species*; and
- land designated as an escarpment natural area in the *Niagara Escarpment Plan* under the *Niagara Escarpment Planning and Development Act*.

While these categories are comprehensive, they do not fully reflect the broad range and diversity of environmentally significant lands, waterways and habitats in Ontario. As a result, the government intends to enhance the eligibility criteria for the conservation land property tax exemption program for lands with natural and environmental significance owned by conservation authorities and conservation land trusts.

These changes will be implemented through regulation for the 2005 taxation year, following consultation with stakeholders about appropriate definitions of eligible properties and administrative procedures for determining eligibility.

The inclusion of additional categories of land in this program will increase the ability of Ontario's conservation authorities and conservation land trusts to preserve lands with natural and environmental significance in a manner that is more reflective of regional conservation objectives and the priorities of local communities.

Brownfields

The clean-up of brownfield sites is important as an alternative to the development of greenfields and to make efficient use of existing infrastructure. Following proclamation, a new financing tool will be available to help municipalities provide financial support for the clean-up of brownfield sites. The new financing tool will allow municipalities to freeze or cancel the municipal property taxes on eligible properties and the Minister of Finance may match the municipal treatment for the education portion of the property tax.

Provincial Land Tax

To provide more fairness in the property tax system in northern areas, the government intends to move forward on updating the provincial land tax (PLT). In 2004-05, the Ministry of Finance will consult with northern communities to determine the best way to implement improvements to the PLT.

Tax Expenditures

Tax expenditures require regular review because they are a form of spending through the tax system. Regular reviews are an important part of achieving the government's goal of fiscal transparency and accountability. Ontarians want a responsible approach to public policy and they want evidence of sound fiscal and financial management.

The government has completed the first step of its review of Ontario's tax expenditures. Several tax expenditures were assessed to determine whether they are meeting their objectives effectively and whether they are consistent with current priorities. Some were found to be ineffective or had very low take-up. Some may be delivered more effectively through other programs. Others simply do not measure up to current priorities.

The government is proposing to modify or eliminate several tax expenditures.

Transforming Existing Tax Expenditures

Retail Sales Tax (RST) Rebate for Vehicles Purchased to Transport Persons with Permanent Physical Disabilities

The current RST rebate for vehicles purchased to transport persons with permanent physical disabilities is providing assistance based more on the ability to purchase vehicles than the need for mobility assistance.

As a more effective way of delivering assistance to persons with physical disabilities, increased funding will be provided for the Home and Vehicle Modification Program (HVMP) funded through the Ministry of Community and Social Services.

Effective May 19, 2004, Ontario would no longer provide a rebate of RST paid on motor vehicles to transport persons with permanent physical disabilities. Rebates would remain available to qualifying purchasers for vehicles purchased before May 19, 2004, provided delivery occurs on or before July 31, 2004. Rebates would also continue to be available for vehicles acquired through long-term lease contracts entered into before May 19, 2004, provided delivery of the vehicle occurs on or before July 31, 2004.

Funding of the HVMP will be increased by $10 million per year. This will exceed the $8 million estimated annual savings provided by cancelling the rebate program.

The current RST exemption for equipment designed solely for the use of people who are chronic invalids or have a physical disability will be maintained. This exempts equipment such as hand controls designed to assist drivers who have a physical disability, or equipment such as wheelchair lifts, ramps and tie-downs installed in a vehicle to accommodate a wheelchair.

Eliminating Tax Expenditures

Workplace Accessibility Tax Incentive, Workplace Child Care Tax Incentive and Graduate Transitions Tax Credit

- These tax incentives would expire for eligible expenditures made after December 31, 2004.
- An expenditure is currently eligible for the Graduate Transitions Tax Credit only if the employment is for a minimum of six consecutive months. Therefore, employment commencing after July 5, 2004 would not qualify for the tax credit.

Educational Technology Tax Incentive

- Donations, sales or licences after December 31, 2004 would no longer qualify for this incentive. For licences granted before January 1, 2005, no amount would be deductible with respect to the

licence after December 31, 2004.

Ontario Home Ownership Savings Plan

- The government proposes that no new plans be registered and no new contributions to existing plans be eligible for the program after May 18, 2004.
- Existing plans would continue to be available for home purchases until the end of 2005.
- Withdrawal of funds from existing plans after 2005 would not be subject to recovery of tax credits or penalties.

Ontario Research Employee Stock Option Credit

- Individuals would no longer be able to claim a tax credit after the end of the 2004 tax year on stock option benefits or capital gains arising from eligible options.

Employer Health Tax Exemption for Stock Option Benefits Paid to Employees of Research-Intensive Companies

- As of May 18, 2004, all stock option benefits would be subject to EHT.

Tax Incentives for Electricity Supply and Conservation

Over the past several months, the government has taken a number of steps to ensure that Ontario will have an adequate and reliable supply of electricity. This includes the plan proposed by the Minister of Energy on April 15, 2004 to encourage the development of new electricity supply by the private sector and to promote the conservation of electricity.

As a result of these actions, the government intends to cancel the following tax incentives for electricity supply and conservation that have not been fully implemented:

- Legislation will be introduced to repeal the 10-year corporate income tax holiday and the 10-year property tax holiday effective November 26, 2002.
- The government will not proceed with implementing the corporate income tax deduction for self-generation announced in the 2003 Ontario Budget and the immediate 100 per cent corporate income tax write-off for electrical energy-efficient equipment announced in November 2002.

Reviewing New Tax Expenditures

Tax expenditures can be an effective way to meet policy objectives. However, a new approach to tax expenditures is needed. The government proposes that, in general, any new tax expenditures be time-limited to ensure a review of their effectiveness. Stakeholders and the intended beneficiaries of those expenditures should be a crucial part of that review.

Other Technical Amendments

To improve administrative effectiveness and enforcement, maintain the integrity and the equity of the tax system, and enhance legislative clarity, various other amendments will be proposed to the following Ontario statutes:

- *Assessment Act*
- *Automobile Insurance Rate Stabilization Act, 2003*
- *Business Corporations Act*
- *Corporations Act*
- *Corporations Tax Act*
- *Education Act*
- *Electricity Act, 1998*
- *Employer Health Tax Act*
- *Family Law Act*
- *Financial Administration Act*
- *Fuel Tax Act*
- *Gasoline Tax Act*
- *Highway Traffic Act*
- *Income Tax Act*
- *Land Transfer Tax Act*
- *Ministry of Revenue Act*
- *Municipal Act, 2001*
- *Municipal Property Assessment Corporation Act, 1997*
- *Ontario Home Ownership Savings Plan Act*
- *Provincial Land Tax Act*
- *Registered Insurance Brokers Act*
- *Retail Sales Tax Act*
- *Tobacco Tax Act*

Part 3: Tax Collection Agreement

Since 1962, Ontario has authorized the federal government to collect and administer provincial income tax through a tax collection agreement.

While the agreement was modified several times since it was signed, both parties identified a need to update it to reflect current practices, modern technology and the evolving nature of the federal-provincial partnership.

That need became compelling in 2000 when Ontario and many other provinces changed the way they calculated their personal income tax. Instead of expressing provincial income tax as a single percentage of federal income tax, provinces began applying their tax rates directly to taxable income.

Since October 2003, significant progress has been made with the federal government to resolve outstanding issues. The federal government has proven to be a reasonable, solutions-oriented partner. The Government of Ontario acknowledges and appreciates the federal government's co-operation in this process.

The Province is now ready to sign a refreshed agreement with the federal government for the collection and administration of Ontario's personal income tax. The new agreement:

- provides significant policy flexibility to respond to the particular needs of Ontario taxpayers;
- contains clear guidelines that the federal government will apply when deciding to administer provincial tax measures;
- responds to recommendations made by the Provincial Auditor, over the last several years, for improvements in the timing of payments and sharing of information; and
- provides greater assurance that our single largest revenue source is being calculated correctly and paid to the Province on a timely basis.

To keep the new agreement consistent with current needs, it will be the subject of a mandatory review every six years.

Part 4: Access to Capital

Ontario offers venture capital support through tax measures and its securities regulation regime. The government plans to further improve the climate for venture capital investment by working with the federal government. In its 2004 Budget, the federal government committed to new investments in the venture capital market, to be implemented through the Business Development Bank. Ontario will approach the federal government to discuss measures that would maximize the potential of the federal program in Ontario.

Improving Access to Capital for New and Innovative Research Businesses

Ontario is committed to supporting venture capital investment for commercialization where a gap exists in the supply of venture capital. A gap often occurs in the earlier stages of high-risk technology businesses, particularly those resulting from research in universities and hospitals.

Ontario provides generous support to publicly funded research institutes for research and development (R&D). In order to reap the benefits of R&D, the government intends to encourage the investment of capital that would support the growth and development of entrepreneurial technology firms created by these institutes.

Framework for Ontario Commercialization Investment Funds (OCIFs)

As mentioned in Budget Paper B, *Ontario's Economy*, the government proposes the following framework to fund costs associated with bringing innovation to market.

Overview of the Program

- An OCIF would raise capital from institutional, corporate and accredited investors. The capital would be accessible to eligible publicly funded research institutes for the commercialization of intellectual property derived from scientific research.
- The minimum purchase required of each investor would be $25,000.
- A grant would be provided to the OCIF after it invests in seed-stage businesses whose primary asset is intellectual property.

Sponsors

- An OCIF must be sponsored by a research institute that qualifies under the Ontario Business-Research Institute Tax Credit.
- These institutions include universities, colleges of applied arts and technology, Centres of Excellence and hospital research institutes in Ontario.

- Each institute would only be able to sponsor one OCIF.

Governance

- Good governance would require visible and active involvement of the sponsors. The sponsors would be represented on the board of directors.
- Investors would also be represented on the board.

Eligible Investments

- Eligible investments would require a strong link to intellectual property of the sponsor. The intellectual property must be developed by the faculty, staff or students of a sponsor.
- An eligible investment must be risk-capital.
- At the time of initial investment, the investee business or prospective business must have less than $1 million in assets.
- The OCIF would be required to diversify its investments.

Eligible Businesses

- The business would not have established commercial operations and must need financing for research and product development.
- The business must be incorporated and operating in Ontario.

Determination and Delivery of the Grant

- The grant would be calculated as 30 per cent of eligible investments made in a year, to the extent that the investments are supported by new capital raised by the OCIF.
- The grant would be payable once a year upon receipt of an application from the OCIF.
- Labour Sponsored Investment Funds and Community Small Business Investment Funds would be precluded from investing in OCIFs.

Program Cap

- The grants would support up to $30 million of capital raised by OCIFs per year, if that capital is fully invested in eligible investments. This would represent potential maximum support of $9 million per year for the program.
- To implement the cap, there would be a restriction on the number of registrations of capitalized OCIFs per year and on the annual amount of grant that would be available to each OCIF.

Accountability

- To ensure a review of the program, registration of new OCIFs would be allowed until the end of 2006. No grants would be available after 2008.
- While the program is running, the government would work with OCIFs to assess the program's effectiveness.

Dividend and Redemption Restrictions

- An OCIF would be restricted from paying dividends or redeeming any shares within four years after the issuance of the shares by the OCIF.

Next Steps

Ontario will also encourage the participation of the federal government in the OCIF program to maximize the leverage potential of public investments.

The government will introduce legislation to create the OCIF program following consultations with the federal government and other interested parties.

Labour Sponsored Investment Funds

Labour Sponsored Investment Funds (LSIFs) are significant fundraisers and investors in Ontario's venture capital industry. In 2003, LSIFs invested over $220 million in Ontario businesses, representing 34 per cent of the total venture capital investment in the province. This capital is invested in new and emerging small and medium-sized businesses essential to Ontario's economy.

The LSIF program has been operating since 1991 and is now a mature feature of the tax system. As with all tax expenditures, it is important that the government review this program to ensure that it is still an appropriate vehicle for meeting the goal of increasing venture capital investment and that the Province and shareholders are receiving value for their investments. The Province will involve stakeholders in this review.

In the last several sales seasons, a number of newly registered LSIFs have failed to raise sufficient capital to be viable investment companies for the long term. LSIF capital is spread too thinly among too many LSIFs and many of the existing LSIFs are too small to be viable long-term investors.

- To ensure the stability and health of the venture capital pool available for Ontario businesses, the Province proposes a moratorium on new LSIF registrations effective May 18, 2004. Applications for registration received by May 18, 2004 will be processed. This would allow existing LSIFs to continue operations and raise capital while the Province works with the federal government and venture capital community to determine appropriate changes to the LSIF program.

A number of amendments will be proposed to the *Community Small Business Investment Funds Act* that would ensure that the LSIF program continues to operate effectively while the program is under review. These amendments are described in the following pages.

The calculation of investment requirements has created difficulties in two respects. First, the current rules regarding the treatment of realized gains and losses were created when the program was new and did not contemplate older LSIFs with long investment histories. Several LSIFs face increasing investment requirements even if they are capped and have no new capital to invest.

Second, the determination of investment requirements of an LSIF formed from the amalgamation of two LSIFs can result in an unfavourable outcome. This has created a disincentive to amalgamate LSIFs, and resulted in smaller and less successful LSIFs being unable to grow or leave the program through amalgamations.

To remedy these situations, the following changes are proposed:

- introduction of rules allowing the amalgamation of LSIFs through asset purchases; and
- an amendment of the investment requirements such that LSIFs must offset 70 per cent of realized losses deducted from investment requirements with a maximum of 70 per cent of realized gains.

LSIFs are limited in the amount of investment they can make in public companies. In order to ensure that smaller public companies can raise capital, the following changes are proposed:

- the restriction on LSIF investments in companies listed on a stock exchange would be relaxed so that an LSIF could invest up to 25 per cent of its investments in a year in listed companies; and
- to give LSIFs some certainty of their maximum investment limit, LSIFs would be able to determine this limit on the greater of either their current or previous years' investments.

Other technical amendments will be proposed as part of the government's ongoing evaluation of the *Community Small Business Investment Funds Act*. Minor amendments would:

- allow LSIFs to control investee companies;
- allow research-oriented investment funds more flexibility when determining their investment requirements by providing them with a choice of August 31 or December 31 as the date on which the requirement would be determined;
- change the calculation of the LSIF tax credit to conform to federal practice, giving investors greater certainty with respect to the amount of their tax credit;
- no longer permit LSIFs to count investments in holding companies against their investment requirements;

- clarify that investments that have been written off without having been disposed of would be deemed to be disposed of; and
- change various provisions to comply with administrative practice.

Part 5: Administrative Fairness and Effectiveness

Simplifying Tax Administration

Retail Sales Tax (RST) Purchase Exemption Certificates (PEC) Simplification

The government proposes to proceed with changes to the RST PEC system. The proposed changes will reduce red tape and compliance costs for vendors and taxpayers when claiming an exemption from RST on purchases. PECs would no longer require a signature, a list of exempt items or an expiry date. As well, farmers would be allowed to use farm association identification cards in lieu of PECs.

Waiver Provisions Under the *Fuel Tax Act, Gasoline Tax Act, Land Transfer Tax Act, Retail Sales Tax Act* and *Tobacco Tax Act*

Waivers allow taxpayers time to gather additional information to support their position without concern that an estimated assessment will be issued, and are an accepted practice in the administration of Ontario taxes. Legislative provisions exist under the *Corporations Tax Act* and *Employer Health Tax Act*. To ensure legislative consistency, amendments will be proposed to the *Fuel Tax Act*, *Gasoline Tax Act*, *Land Transfer Tax Act*, *Retail Sales Tax Act* and *Tobacco Tax Act* to codify the Minister of Finance's policy of accepting waivers from taxpayers in instances where the period for taxes owing is about to become statute-barred.

Ensuring Integrity of the Tax System

Dissolution of Corporate Charters for Unpaid Tax Debts

To ensure that tax debts have been paid or secured, amendments to the *Business Corporations Act* will be proposed to allow for the dissolution of the corporation and the withholding of clearance certificates for revivals, transfers of assets or dissolutions where tax debts are owed to the Minister of Finance under the *Employer Health Tax Act*, *Fuel Tax Act*, *Gasoline Tax Act*, *Land Transfer Tax Act*, *Retail Sales Tax Act* and *Tobacco Tax Act*.

Improving Tax Administration

Returns and Payments by Alternative Channels

In order to better accommodate the business needs of taxpayers, and realize the efficiencies of electronic and other alternative channels for taxpayers to file returns, make remittances and conduct business with the ministry, as well as for the ministry to make payments and refunds, amendments will be proposed to ensure that electronic services can be accommodated across all statutes. In addition, the Ministry of Finance will implement an automated online service system to expedite gasoline tax refunds to reserve gasoline retailers for tax-exempt sales to First Nations individuals.

Keeping Regulations Current

Loan and Trust Corporations Act

The government intends to introduce legislation to update the definition of "loan corporation" in the *Loan and Trust Corporations Act* (the Act). This proposal would keep provincial legislation current with changes in federal legislation by excluding from the definition of loan corporation in the Act a retail association, as defined in the federal *Cooperative Credit Associations Act*.

Trust Beneficiaries' Liability Act

In response to a request from the Chair of Management Board, the government will propose technical legislation to clarify that investors in publicly traded trusts will not be liable for the activities of the trust.

Part 6: Revenue Plan

2004 Budget Impact Summary	2004-05	2005-06	2006-07	($ Millions) 2007-08
Ontario Health Premium	1,635	2,350	2,470	2,600
Corporations Tax				
Plan to Eliminate the Capital Tax	(1)	(40)	(80)	(110)
Capital Cost Allowance Enhancements	(26)	(61)	(61)	(61)
Enhancing the OFTTC	(8)	(8)	(8)	(8)
Apprenticeship Training Tax Credit[10]	(80)	(95)	(95)	(95)
Personal Income Tax				
Enrich Property Tax Credit	(85)	(85)	(85)	(85)
Retail Sales Tax				
One-Year Exemption for DMF	(2)	(1)	0	0
Rebate for Clean Home Energy Systems	(3)	(3)	(3)	(3)
Extension of EnergyStar® Rebate[11]	(8)	0	0	0
Tobacco Tax	90	110	110	110
Revenue from Spirits, Wine and Beer	45	60	61	62
Driver's Licence Fee	3	9	14	19
Technical Measures	0	1	1	1
Property Tax				
Brownfields	(5)	(5)	(5)	(5)
Conservation Land Tax Exemption	(1)	(1)	(1)	(1)
Tax Expenditure Review				
End ORESO and EHT Exemption	13	15	15	15
End OHOSP	5	6	6	6
End Various CIT Incentives	1	1	1	1
Transform RST Rebate for Vehicles to Transport Persons with Physical Disabilities[12]	-	-	-	-
Administrative Fairness and Effectiveness (See Paper A)	70	240	465	465
Total Revenue Changes	**1,643**	**2,493**	**2,805**	**2,911**

Endnotes

1. Kirby, Michael J.L., *The Health of Canadians—The Federal Role, Volume 6: Recommendations for Reform,* Standing Senate Committee on Social Affairs, Science and Technology, 2002.

2. Ibid.

3. Ibid.

3a. Romanow, Roy J., *Building on Values—The Future of Health Care in Canada*, Commission on the Future of Health Care in Canada, 2002.

4. Address by Prime Minister Paul Martin to the Empire Club and the Canadian Club, April 16, 2004.

5. Conference Board of Canada, *Fiscal Prospects for the Federal and Provincial/Territorial Governments*, February 2004. The Conference Board's projections are based on maintaining the status quo with respect to tax rates and program spending.

6. Romanow, Roy J. *Building on Values—The Future of Health Care in Canada*, Commission on the Future of Health Care in Canada, 2002.

7. Ontario Media Development Corporation, News Release, March 22, 2004.

8. Statistics Canada, *2003 Labour Force Survey.*

9. These are the only service trades eligible under the apprenticeship component of the CETC and, therefore, are the only service trades that would qualify for the ATTC.

10. The Apprenticeship Training Tax Credit is proposed to end for new hiring after December 31, 2007.

11. As announced on March 29, 2004, the RST rebate for certain EnergyStar®-rated appliances would be extended until July 31, 2004.

12. Funding of the Home and Vehicle Modification Program will be increased by $10 million per year. This will exceed the $8 million estimated annual savings provided by cancelling this rebate.

PAPER D

Report on Borrowing and Debt Management Initiatives

Highlights

Cost-effective borrowing and debt management activities minimize debt interest costs, freeing up resources for essential programs such as health care and education.

The 2004-05 long-term public borrowing requirements for the Province and Ontario Electricity Financial Corporation (OEFC) are projected at $23.8 billion, of which $3.5 billion has been completed. The medium-term outlook for long-term public borrowing is estimated at $23.9 billion in 2005-06, declining to $18.8 billion by 2007-08. The refinancing of maturing debt will remain the most significant component of the borrowing program over the next few years. Legislation will be proposed to provide the government with legal authority for new borrowing that exceeds these maturities.

For the 2003-04 year, the Province and OEFC borrowed $25.4 billion in long-term funds.

Long-Term Public Borrowing Program

Total long-term public borrowing requirements for the Province and OEFC in 2003-04 were $25.4 billion. This amount includes $14.9 billion of debt maturities and redemptions and $6.2 billion for the deficit, partially offset by adjustments for non-cash items and amortizations included in the deficit. OEFC's long-term public borrowing requirements were $5.5 billion.

Ontario's bond issues are well received by both retail and institutional investors worldwide. By far, Canadian investors comprise the largest investor base for Ontario, followed by investors in the United States. European and Asian investors also purchase Ontario bonds.

In 2003-04, $18.7 billion, or almost three-quarters, of the Province's total long-term public borrowing requirements were completed in the Canadian domestic market. The Province used a number of instruments to diversify its domestic borrowing program. For instance:

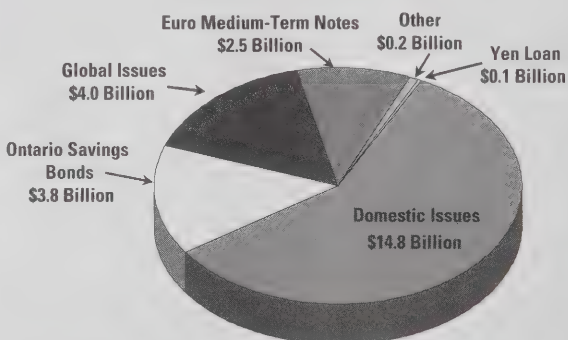
- $7.1 billion was raised through 14 bond issues broadly targeted to domestic investors.
- $4.5 billion in Floating Rate Notes were issued at cost-effective rates.
- Two bond auctions were completed on behalf of OEFC. These bond auctions raised a total of $1.0 billion at competitive rates.
- $900 million was raised through the issuance of the Province's first amortizing bond.
- A variety of bonds with different terms and structures were issued to meet specific investor preferences.

While the majority of the borrowing was completed in the domestic market, Ontario diversified its funding sources by raising the equivalent of $4.6 billion in foreign currencies, achieving costs below those available in the Canadian domestic markets:

- The Province launched its first global bond denominated in euros, and also issued three U.S. dollar global bonds.
- Euro Medium-Term Notes in Canadian dollars, Australian dollars, Swiss francs and Japanese yen were issued, along with the Province's first Hong Kong dollar bond. Ontario also issued a yen loan.

2003-04 Long-Term Public Borrowing

$25.4 Billion in Long-Term Public Borrowing*



*Excludes debt buybacks.
Source: Ontario Financing Authority.

Consolidated Provincial Borrowing Program				
	2003-04			
($ Billions)	Fall Outlook*	Interim	Change	Plan 2004-05
Deficit/(Surplus)	5.6	6.2	0.6	2.2
Adjustments for:				
Non-Cash Items Included in Deficit	0.9	(1.3)	(2.2)	3.2
Amortization of Major Tangible Capital Assets	(0.8)	(0.8)	-	(0.8)
Acquisitions of Major Tangible Capital Assets	1.5	1.3	(0.2)	1.6
Debt Maturities	13.3	13.3	-	16.1
Debt Redemptions	1.1	1.6	0.5	1.0
Canada Pension Plan Borrowing	(0.2)	(0.1)	0.1	(1.1)
Increase/(Decrease) in Cash and Cash Equivalents	(2.0)	0.9	2.9	0.0
Decrease/(Increase) in Short-Term Borrowing	(0.3)	1.3	1.6	0.2
Other Uses/(Sources) of Cash	3.6	3.0	(0.6)	1.4
Total Long-Term Public Borrowing Requirement	**22.7**	**25.4**	**2.7**	**23.8**

* As presented in the 2003 Ontario Economic Outlook and Fiscal Review.

Note: Consistent with the treatment in the 2002-03 Public Accounts, the borrowing program of OEFC was consolidated with that of the Province.

In addition to the borrowing and redemptions shown in the table for 2003-04, the Province bought back $0.5 billion of previously issued debt, financing these purchases with similar amounts of debt issued at more favourable rates.

The Province's long-term public borrowing program for 2003-04 was $25.4 billion, $2.7 billion higher than the 2003 Ontario Economic Outlook and Fiscal Review estimate, as the Province locked in historically low long-term interest rates by increasing Cash and Cash Equivalents while decreasing Short-Term Borrowing. The $0.6 billion increase in the Deficit also increased the borrowing program. The program increase was partially offset by a decrease in Non-Cash Items Included in the Deficit.

Included in the $2.7 billion increase in the 2003-04 requirements is a $1.0 billion increase in long-term public borrowing requirements for OEFC, due to a decision to extend the term of some of OEFC's debt to lock in more attractive long-term financing.

Long-term public borrowing requirements for 2004-05 are forecast at $23.8 billion, a $1.6 billion decrease from 2003-04. So far in 2004-05, the Province has completed $3.5 billion in long-term public borrowing, leaving $20.3 billion remaining to be borrowed for the fiscal year.

Medium-Term Borrowing Outlook

Medium-Term Outlook: Consolidated Provincial Borrowing Program				
($ Billions)	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Deficit/(Surplus)	2.2	2.1	1.5	0.0
Estimated Adjustments for Non-Cash Items Included in Deficit	2.4	1.2	1.1	1.1
Acquisitions of Major Tangible Capital Assets	1.6	1.7	1.9	1.7
Debt Maturities				
Currently Outstanding	16.1	18.9	11.8	9.5
Incremental Impact of Future Refinancing	0.0	0.0	2.1	5.8
Subtotal	16.1	18.9	13.9	15.3
Debt Redemptions	1.0	1.0	1.0	1.0
Canada Pension Plan Borrowing	(1.1)	(1.2)	(0.4)	(0.4)
Decrease/(Increase) in Short-Term Borrowing	0.2	0.0	0.0	0.0
Other Uses/(Sources) of Funds	1.4	0.2	0.0	0.1
Estimated Long-Term Public Borrowing Requirement	**23.8**	**23.9**	**19.0**	**18.8**

While the Province expects to borrow as a result of projected deficits in the medium term, the most significant component of the borrowing program will be to refinance maturing debt. Debt maturities for the Province and OEFC are estimated at $16.1 billion in 2004-05, $18.9 billion in 2005-06, $13.9 billion in 2006-07 and $15.3 billion in 2007-08.

Cost-effective borrowing and prudent debt management strategies will continue to be key objectives. These objectives are designed to mitigate the risks associated with accessing the capital markets and to minimize the potential fiscal impact of interest rate and foreign exchange fluctuations. In managing debt maturities, the Province will aim for a smooth maturity profile by taking advantage of opportunities to schedule maturities into years that currently have lower levels of maturing debt.

In addition, the Province will maintain a flexible approach to borrowing, monitoring both domestic and international capital markets to seek out diversified borrowing opportunities that minimize debt servicing costs and support the government's fiscal plan.

Northern Ontario Grow Bonds

A Northern Ontario Grow Bonds pilot project would allow northern Ontario residents to invest in their communities. The proceeds of provincially guaranteed Northern Ontario Grow Bonds would be loaned to eligible small and medium-sized businesses in the north to strengthen and diversify the local economy.

Northern Ontario Grow Bonds are part of the government's plan to promote northern prosperity. Details of this plan can be found in Budget Paper B, *Ontario's Economy*.

Debt Management

The Province mitigates financial risks such as market and credit risks associated with its capital market activities by adhering to prudent risk management policies and exposure limits. Financial instruments such as swaps and options are used to hedge the Province's and OEFC's exposure to foreign exchange, interest rate and credit risks.

The Province limits itself to a maximum foreign exchange exposure of five per cent of debt issued for Provincial purposes. As of March 31, 2004, foreign exchange exposure was 1.2 per cent of debt issued.

The Province has a maximum interest rate reset exposure limit of 25 per cent of debt issued for Provincial purposes. As of March 31, 2004, interest rate reset exposure was 11.4 per cent of debt issued.

When OEFC was established in 1999, its foreign exchange exposure was 14.5 per cent of its total debt. As of March 31, 2003, foreign exchange exposure was reduced to 6.3 per cent, and by March 31, 2004, this exposure was eliminated by taking advantage of a stronger Canadian dollar.

Floating rate exposure was 8.0 per cent of outstanding debt at March 31, 2004, within the OEFC's limit of 20 per cent.

The Province's credit risk exposures arising from capital market activities are managed by limiting transactions to highly rated counterparties and maintaining credit exposures within approved policy limits.

PAPER D Appendix: Consolidated Financial Tables

NET DEBT AND ACCUMULATED DEFICIT Interim 2004						TABLE I (A) ($ Millions)
	1999-2000	2000-01	2001-02	2002-03	Interim 2003-04	Plan 2004-05
Debt [1]						
Non-Public Debt						
Minister of Finance of Canada: Canada Pension Plan Investment Fund	13,117	12,709	11,944	10,746	10,233	10,233
Ontario Teachers' Pension Fund	12,252	11,535	11,043	10,387	9,487	8,666
Canada Mortgage and Housing Corporation	1,181	1,147	1,116	1,078	1,040	1,006
Public Service Pension Fund	3,535	3,446	3,331	3,200	3,052	2,886
Ontario Public Service Employees' Union Pension Fund (OPSEU)	1,679	1,637	1,582	1,520	1,450	1,371
Other[2]	716	657	581	356	1,081	1,063
	32,480	31,131	29,597	27,287	26,343	25,225
Publicly Held Debt						
Debentures and Bonds[3]	97,694	99,008	99,990	102,958	116,733	125,568
Treasury Bills	5,663	4,814	5,108	6,274	3,359	3,209
U.S. Commercial Paper[3]	1,133	959	1,566	1,515	1,134	1,134
Deposits with the Province of Ontario Savings Office (POSO)[4]	2,812	2,482	2,438	-	-	-
Other	458	447	447	438	745	1,611
	107,760	107,710	109,549	111,185	121,971	131,522
Total Debt	**140,240**	**138,841**	**139,146**	**138,472**	**148,314**	**156,747**
Cash and Temporary Investments	(6,884)	(6,319)	(5,773)	(7,252)	(8,417)	(8,417)
Other Net (Assets)/Liabilities[5]	1,042	(26)	(1,252)	1,427	(492)	(5,918)
Net Debt	**134,398**	**132,496**	**132,121**	**132,647**	**139,405**	**142,412**
Tangible Capital Assets[6]	-	-	-	(13,942)	(14,478)	(15,246)
Accumulated Deficit[7]	**134,398**	**132,496**	**132,121**	**118,705**	**124,927**	**127,166**

Source: Ontario Ministry of Finance.

(1) Includes debt issued by the Province and Government Organizations, including Ontario Electricity Financial Corporation and Ontario Municipal Economic Infrastructure Financing Authority (OMEIFA)/Ontario Strategic Infrastructure Financing Authority (OSIFA).

(2) Other non-public debt includes Ontario Municipal Employees Retirement Fund, College of Applied Arts and Technology Pension Plan, Ryerson Retirement Pension Plan, Ontario Immigrants Investor Corporation and indirect debt of school boards (the indirect debt of school boards of $891 million was incurred in 2004 to refinance the non-permanently financed debt of 55 school boards. An equivalent amount is included in Net Assets as advance payments to school boards.)

(3) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts.

(4) The Province completed the sale of POSO to Desjardins Credit Union effective March 31, 2003, with the POSO liabilities to the depositors assumed by the purchaser.

(5) Other Net (Assets)/Liabilities includes accounts receivable, loans receivable (including municipal loans by OMEIFA/OSIFA), advances and investments in Government business enterprises, accounts payable, accrued liabilities, pensions and the elimination of the liability for power purchase agreements with non-utility generators.

(6) Starting with fiscal year 2002-03, Tangible Capital Assets are capitalized and amortized over their estimated useful lives. In 2001-02 and prior years, the costs of Tangible Capital Assets were recognized as expenditures.

(7) Accumulated Deficit represents net debt adjusted for tangible capital assets.

DEBT MATURITY SCHEDULE **TABLE I (B)**
Interim 2004 **($ Millions)**

Currency	Canadian Dollar	U.S. Dollar	Japanese Yen	Euro[1]	Other Currencies[2]	Interim 2003-04 Total	2002-03 Total
Fiscal Year Payable							
2003-04							17,662
2004-05	15,884	2,539	614	310	536	19,883	14,449
2005-06	12,014	6,747	676	46	-	19,483	18,508
2006-07	9,257	2,437	460	-	-	12,154	7,909
2007-08	6,040	3,007	320	-	299	9,666	9,768
2008-09	14,399	3,790	-	795	207	19,191	-
1-5 years	57,594	18,520	2,070	1,151	1,042	80,377	68,296
6-10 years	23,644	3,291	938	2,749	483	31,105	36,732
11-15 years	1,655	-	63	-	-	1,718	2,022
16-20 years	10,181	-	-	-	-	10,181	7,376
21-25 years	14,368	-	-	-	-	14,368	12,057
26-50 years[3]	10,565	-	-	-	-	10,565	11,989
Total[4]	**118,007**	**21,811**	**3,071**	**3,900**	**1,525**	**148,314[5]**	**138,472**
Debt Issued for Provincial Purposes	94,952	17,621	3,071	3,900	1,218	120,762	112,340
OEFC Debt	23,055	4,190	-	-	307	27,552	26,132
Total[5]	**118,007**	**21,811**	**3,071**	**3,900**	**1,525**	**148,314[5]**	**138,472**

(1) Euro includes debt issued in legacy currencies i.e., Deutsche mark, French franc and Netherlands guilders.

(2) Other Currencies comprise Australian dollar, Norwegian kroner, New Zealand dollar, Pound sterling, Swiss franc and Hong Kong dollar.

(3) The longest term to maturity is to March 1, 2045.

(4) Total for all foreign currency denominated debt as at March 31, 2004 was $30.3 billion (2003, $28.4 billion). Of that, $27.5 billion or 90.8% (2003, $25.0 billion or 88.1%) was fully hedged to Canadian dollars.

(5) Total debt includes issues totalling $2.9 billion (2003, $3.4 billion) that have embedded options exercisable by either the Province or the bondholder under specific conditions.

MEDIUM-TERM OUTLOOK— **TABLE I (C)**
NET DEBT AND ACCUMULATED DEFICIT **($ Billions)**

	2005-06	2006-07	2007-08
Total Debt	**163.8**	**171**	**177.2**
Cash and Temporary Investments	(8.4)	(8.4)	(8.4)
Other Net (Assets)/Liabilities	(10.0)	(14.7)	(20.1)
Net Debt	**145.4**	**147.9**	**148.7**
Tangible Capital Assets	(16.2)	(17.2)	(18.0)
Accumulated Deficit	**129.2**	**130.7**	**130.7**

DESCRIPTION OF DERIVATIVE FINANCIAL INSTRUMENTS

The table below presents a preliminary maturity schedule of the Province's and OEFC's derivative financial instruments, by type, based on the notional amounts of the contracts. Notional amounts represent the volume of outstanding derivative contracts, are not indicative of credit or market risk, and are not representative of actual cash flows.

The Province has sizable financing requirements, largely to refinance maturing indebtedness, which includes those of OEFC. To meet these financing requirements in the most cost-effective manner, the Province has issued a variety of debt instruments in domestic and international markets. To take advantage of favourable interest rates, the Province issues debt instruments that are repayable in several currencies other than Canadian dollars.

Derivatives are financial contracts, the value of which is derived from underlying instruments. The Province uses derivatives to hedge and to minimize interest costs. Hedges are created primarily through swaps, which are legal arrangements under which the Province agrees with another party to exchange cash flows based upon one or more notional amounts using stipulated reference interest rates for a specified period. Swaps allow the Province to offset its existing obligations and thereby effectively convert them into obligations with more desirable characteristics. Other derivative instruments used by the Province include forward foreign exchange contracts, forward rate agreements, futures, options, caps and floors.

DERIVATIVE PORTFOLIO NOTIONAL VALUE — **TABLE I (D)**
Interim 2004 — **($ Millions)**

Maturity in Fiscal Year	2004-05	2005-06	2006-07	2007-08	2008-09	6-10 Years	Over 10 Years	Interim 2003-04 Total	2002-03 Total
Swaps:									
Interest rate	4,814	12,890	5,374	7,090	10,106	11,370	3,419	55,063	49,043
Cross currency	6,437	8,255	3,165	2,934	3,986	6,041	-	30,818	28,699
Forward foreign exchange contracts	2,755	-	-	-	-	-	-	2,755	2,081
Futures	62	-	-	-	-	-	-	62	100
Options	40	-	-	-	-	-	-	40	-
Caps and floors	50	225	205	-	-	-	-	480	50
TOTAL	14,158	21,370	8,744	10,024	14,092	17,411	3,419	89,218	79,973

Definitions:

Notional value: represents the volume of outstanding contracts. It does not represent cash flows.

Swap: a legal arrangement, the effect of which is that each of the parties (the counterparty) takes responsibility for a financial obligation incurred by the other counterparty. An interest rate swap exchanges floating interest payments for fixed interest payments or vice versa. A cross-currency swap exchanges principal and interest payments in one currency for cash flows in another currency.

Forward foreign exchange contract: an agreement between two parties to set exchange rates in advance.

Future: a contract that confers an obligation to buy/sell a commodity at a specified price and amount on a future date.

Option: a contract whereby the buyer has the right to buy/sell a designated instrument at a specified price within a specified period of time.

Cap: a contract that allows the purchaser to cap the contractual interest rate of a liability.

Floor: a contract that allows the purchaser to protect the total rate of return of an asset.

The Province also limits its credit risk exposure on derivatives by entering into contractual agreements (master agreements) that provide for termination netting and, if applicable, payment netting with virtually all of its counterparties.

PAPER E

A More Transparent and Accountable Budget

Introduction

"We are trapped in a cycle of deficit/cut/spend. I want to break that habit."

—Premier Dalton McGuinty

This paper outlines a vision for Budget reform in Ontario—one that is focused on making the Budget and its process more accountable to the citizens of Ontario. If government is to meet the priorities of Ontarians and realize the results they want to achieve, its planning and budgeting processes must change. This paper describes two complementary budget-reform initiatives: the proposed Fiscal Transparency and Accountability Act (FTAA) and a Budgeting for Results framework. In addition, this paper introduces an important new initiative that supports budget reform and will promote efficiency in the broader public sector—supply chain management.

Budgeting is not just about collecting revenues and spending money. It is an ongoing complex process involving people, interests and organizations from across the province that make competing and valid arguments for the use of public resources. As the culmination of this process, the Budget is a powerful instrument of change that can achieve both economic and social objectives. The way budgets are made—the way decisions are made and communicated—is a key determinant of government's accountability to its citizens. This accountability is important because Ontarians need to see that their money is being used wisely. Ontarians want a responsible approach to public policy and they want evidence of good fiscal and financial management. Ontarians need to know the true state of the Province's finances when they vote.

The box on the next page provides a brief overview of the system of traditional budgeting, planning and reporting processes. At its core, any system of budgeting exists to serve three main functions:[1]

- ensure overall fiscal sustainability;
- allocate resources according to government priorities; and
- promote efficient delivery of public services.

Like governments around the world, Ontario has, over the years, developed a budgeting process that offers certain strengths, but also serious weaknesses that this reform seeks to address. The initiatives outlined in this paper are designed to make budgeting in Ontario more effective in performing its core functions. The transformation of Ontario's budget process is comprehensive in changing the way planning is conducted and decisions are made and communicated. This will involve collaboration across the public sector in order to drive real, positive change while living within our means.

Overview of Planning and Budgeting in Ontario

Priority-Setting:

The government's priorities and commitments are the primary drivers of planning and budgeting. In Ontario, these have traditionally been articulated in election platforms, the Budget or the Speech from the Throne.

Planning:

Within the context of what is affordable, ministries plan strategies and activities to respond to the priorities and to maintain vital public services over the next several years. Ministries then take these plans forward to the government for approval.

Budgeting:

The approval process culminates in the tabling of the Budget, which also includes tax policy decisions. Detailed information about revenue and expenses is released in the Budget, usually for the upcoming fiscal year only.

Making Appropriations:

Detailed spending Estimates, based on the totals set out in the Budget, are presented to the members of the legislative assembly to seek legislative authority through a vote on the *Supply Act*.

Reporting and Auditing:

The fiscal position of the Province is disclosed in the Ontario Finances each quarter and an Economic Outlook and Fiscal Review roughly halfway through the fiscal year. Interim results for the year just ended are included in the next Budget.

Final numbers are reported in the Ontario Annual Report and Public Accounts, which can be thought of as ending the cycle for a particular year. The financial statements for the Province, which are audited by the Provincial Auditor, are presented along with detailed financial statements of ministries and significant Crown corporations, boards and commissions in the fall, following the end of the fiscal year.

Source: Ontario Ministry of Finance.[2]

This paper is organized in the following way:

- Section I, **Ensuring Fiscal Sustainability**, provides an overview of the proposed Fiscal Transparency and Accountability Act;
- Section II, **Beginning Budgeting for Results**, outlines how a new approach to planning, budgeting and reporting is being developed to effectively allocate resources to priorities; and
- Section III, **Promoting Efficiency**, announces a new initiative, supply chain management, that can change the delivery of key public services in Ontario.

Section I: Ensuring Fiscal Sustainability

In every government, decisions related to long-term fiscal sustainability often tend to compete with short-term considerations, a tension that can be compounded by an annual budget cycle and four-year electoral cycle. In addition, by their nature, all governments consist of many ministries responsible for spending and few responsible for controlling that spending. This creates a tendency to address public policy issues with more spending.[3] Combine these tendencies with the usual uncertainty about changes to future revenues and public-service demands, and it is easy to understand how sustainability can be a challenge.

In many jurisdictions, governments attempt to address these issues by legislating rules governing fiscal planning and reporting.[4] In 1999, Ontario adopted the *Balanced Budget Act* (BBA). The BBA requires the government to plan for an annual balanced budget. Failure to achieve a balanced budget results in a 25 per cent reduction in ministers' compensation in the first year, and 50 per cent in subsequent years in which the budget is not balanced. The BBA includes exceptions for extraordinary circumstances such as war or economic catastrophe and an exemption from sanctions for any new government in the first fiscal year they were elected.[5]

The BBA does not set standards for transparency in the development and presentation of budget documents. This is an important omission. Other governments, international institutions and public-finance academics have stressed the importance of transparency in ensuring accountability for sustainable fiscal policy.[6] This point was made by former Provincial Auditor Erik Peters in his October 2003 report on Ontario's finances. Mr. Peters' comments also raise the potential problem with rigid balanced-budget rules in limiting government flexibility, which has also been a focus of academic research.[7] This government believes that unbalanced budgets are not sustainable, but also understands that forcing balance at the expense of all other considerations is neither responsible nor consistent with long-term sustainability. Forcing balance, by indiscriminately cutting spending now, would require even greater spending in the future.

"*I urge the new government to consider legislation dealing with fiscal responsibility. The objective would be to improve accountability through greater transparency in and quality of budgets and updates such as the quarterly Ontario Finances. This approach would be more effective in ensuring fiscal accountability than legislation that limits government's flexibility in responding to fiscal challenges.*"

—Erik Peters, Former Provincial Auditor,
Report on the Review of the 2003-04 Fiscal Outlook, *October 29, 2003*

In order to increase accountability, this government is proposing a Fiscal Transparency and Accountability Act (FTAA) to replace the current BBA. If approved by the legislature, the proposed FTAA would have three main elements:

- It would provide a responsible and flexible framework for the conduct of fiscal policy.
- It would lay out clear and comprehensive transparency requirements for the Budget and related publications, consistent with international best practices.
- If a report is not released as required by the legislation, the Minister of Finance would table a statement of non-disclosure in the legislature and encourage debate.

This government will accept the BBA's salary sanctions for the 2004-05 fiscal year. In future years, salary sanctions would not apply.

Key Provisions of the Proposed Fiscal Transparency and Accountability Act

Fiscal Principles and Objectives:

- Guiding principles: responsibility, flexibility, equity and transparency.
- Maintain prudent debt-to-GDP ratio. Debt is defined as the accumulated deficit of the province.
- Plan for an annual balanced budget. If, in extraordinary circumstances, the government decides that a short-term deficit is necessary, it must release a sustainable recovery plan.

Transparency Mechanisms:

- Budget tabled in the legislature that includes:
  - a multi-year fiscal framework;
  - a comprehensive discussion of risks; and
  - information on priorities and results.
- Mid-Year Economic Outlook and Fiscal Review.
- Long-Term Report.
- Timing of Quarterly Finances and Economic Accounts.
- Pre-Election Report.

Sanctions:

- If a report is not released as required by the legislation, the Minister of Finance would table a statement of non-disclosure in the legislature and encourage debate.

The box above summarizes the various provisions of the proposed legislation. The proposed Act would provide a clear set of principles to guide fiscal policy: responsibility, flexibility, equity and transparency. A similar set of principles have been established in the United Kingdom (U.K.). See box below for details of the U.K.'s budget reform. Building on these principles, the proposed FTAA would then establish two clear fiscal objectives:

- **The government must maintain a prudent debt-to-GDP ratio.** While governments may run deficits, and in some cases need to, long-term debt sustainability is a real constraint on government activity.[8] It is important to establish this overarching objective to put shorter-term objectives into perspective. As in other jurisdictions, the meaning of prudent is left to the interpretation of the government of the day.[9] For the purposes of the proposed FTAA, debt would be defined as the accumulated deficit of the province.

- **The government shall plan for an annually balanced budget.** This remains a legitimate short-term objective for governments.[10] However, this objective would not constrain a government's flexibility if, in extraordinary circumstances, it determined that deficits were necessary. In such circumstances, the government would be required to indicate how it planned to return to balance and how the plan was still consistent with long-term sustainability.

United Kingdom

In 1997, a new government was faced with a large structural deficit, low net investment, rising public debt and falling public-sector net worth. In part, the causes of these problems were identified as a lack of transparent fiscal objectives and reporting mechanisms. This led to the creation of the *Code of Fiscal Stability, 1998* (integrated into the *Finance Act, 1998*), based on the principles of transparency, stability, responsibility, fairness and efficiency.

The Government has specified two rules to guide policy consistent with those principles:

- Golden Rule: Over the economic cycle, the government will borrow new funds only to invest and not to fund current spending.
- Sustainable Investment Rule: Public-sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level.

The Code requires specific documents and analyses:

- A Pre-Budget Report to encourage debate on the proposals under consideration for the budget.
- An Economic and Fiscal Strategy Report outlining the government's outlook for key fiscal aggregates for a period of not less than 10 years into the future, strategy for the future and discussion of intergenerational impact and sustainability of fiscal policy.

Source: HM Treasury.[11]

In terms of transparency mechanisms, FTAA would require a significantly higher quality of disclosure than at present. For the Budget, FTAA would require that it be tabled in the legislature. It would also require the Budget to present a multi-year perspective. The adoption of multi-year planning and reporting is an international best practice and has been a key component of budget reform in other jurisdictions.[12] In addition, the Budget would be required to present a comprehensive discussion of risks and information on non-financial performance or results. The 1995 and 2000 Ontario Financial Review Commissions (OFRC) both emphasized the need for these types of reforms.[13]

Summary of Key Ontario Financial Review Commission Recommendations for Government[13]

- Adopt a prudent planning framework that encourages cautious forecasting and better expenditure planning.
- Present a three-year business plan as part of the annual Budget that includes:
  - goals and priorities;
  - targets to measure progress;
  - changes from plans;
  - an outline of revenue; and
  - expenditures and economic projections for the upcoming year and following two years.
- Release the Budget before the start of the fiscal year.

The proposed Act would go further, specifying the timing and content of several key reports to establish a coherent cycle for reporting. A Mid-Year Economic Outlook and Fiscal Review would be required no later than 45 days after the end of the second quarter of the fiscal year to update information released in the Budget and provide a proper context for pre-Budget consultation. A Long-Term Report would be required to assess the long-term sustainability of fiscal policy given economic and demographic trends.[14] This is important as many public-policy issues, such as public infrastructure investment, the evolving nature of service delivery and sectoral change, are long term in duration. In addition, the release dates of quarterly Ontario Finances and Economic Accounts would be specified in the proposed legislation, enshrining a cycle for disclosure of the fiscal plan.[15]

The government will work towards tabling the Budget before the start of the fiscal year. Once the planning and reporting processes described in the next section have matured, the government would consider making the timing of the Budget part of the proposed FTAA.

Finally, the proposed Act would require the Ministry of Finance to prepare a Pre-Election Report. This report would be reviewed by the Provincial Auditor and released well before elections to ensure governments do not mislead the public on the state of the Province's finances.

Section II: Beginning Budgeting for Results

"We want to make sure that money is focused on the priorities we share and the results we need."
—Premier Dalton McGuinty

Ontarians face tough choices. This government is committed to informing those choices with clear and measurable results. Around the world, governments are moving towards developing and reporting on the results of public-sector activity.[16] This is motivated by the need to know what value is gained for money spent, rather than simply how much is spent. This shift in thinking is not easy for governments that must inevitably contend with wide and competing objectives. Amounts of money are easy to measure but, without any other information, understanding the meaning of those amounts is difficult. Without such an understanding, how can the public hold government accountable? The public needs to know the results of government activity.[17]

However, providing information on results is a complex task. This is because the relationship between cause and effect can be unclear. Results can be influenced by many variables. For example, how much of a change in the economy can be attributed to government activity? How much was actually caused by global economic trends? While government has a clear responsibility and ability to work towards better results, it cannot (nor should it try to) completely control all variables. Often, government acts primarily as a catalyst for change. There is a risk that information on results will be misinterpreted—and governments will be held accountable for things beyond their control.

A focus on results can also be complicated by a lack of clear, quantifiable measures of success and the information-management systems needed to track them. The next step, understanding how government activity is directed towards results, is complicated by the traditional incremental approach to budgeting, whereby the process focuses on what is new or changing rather than the entire budget.[18] Governments around the world have recognized these problems and have developed many tools to address them.[19] See the box on the next page for an overview of reform in Washington State and Australia.

Washington State

The government adopted a results-based budget process for the 2003-05 Biennial Budget as an alternative to across-the-board cuts. The steps of this process are the identification of priorities, allocation of resources among priorities and the development of strategies for each result.

Australia

In 1999, Australia introduced a budgeting and reporting framework to provide taxpayers with more information about the costs and performance of government. The framework requires government to place greater emphasis on results, including appropriations that are aligned with outcomes; budget submissions that are structured around outputs (price, quality, quantity); and criteria for designing performance measurement. Results are communicated in the government's annual report.

Sources: Washington State, OECD [19]

Each jurisdiction must develop an approach to suit its own processes. A new made-in-Ontario approach to planning and budgeting is being developed to address these issues. It will make government more accountable in three key ways:

- it will clearly set priorities and measurable outcome-based results;
- it will integrate those results into a planning process that looks at all government spending; and
- it will report regularly on progress.

Priority-Setting

Immediately after being elected, the government started working on its transformation agenda. It initially engaged the Ontario Public Service in an Ideas Campaign. This resulted in the submission of 11,000 ideas that are focused on improving the effectiveness and efficiency of services in Ontario.

Early in 2004, the government commissioned the Canadian Policy Research Networks to conduct a series of Citizens' Dialogues.[20] The government also conducted an unprecedented consultation process, Budget Town Hall 2004. The Minister of Finance visited 10 communities as part of 14 separate pre-Budget discussions.

These consultations aimed to strengthen, as the Budget was drawn up, the government's focus on the priorities and results desired by people in Ontario. As such, they provide the cornerstone for moving forward with budgeting for results.

It is through measuring results that the public can understand progress on priorities. Some initial examples include: success for students can be understood through higher literacy and math scores; healthier Ontarians is associated with reduced waiting times for key services; prosperity can be measured by higher educational achievement and the extent of job creation; strong communities can be measured through people's quality of life; and stronger democracy can be achieved through more people actively contributing to their communities.

As discussed below, the government is working towards a report on results to be released later this year.

Planning for Results

Once priorities are set, the next step is to tie planning to priorities. This happens when the desired results of government activities are set out and ways of measuring progress towards them are put in place. The results are, in essence, a way of measuring return on public investment in key priorities.

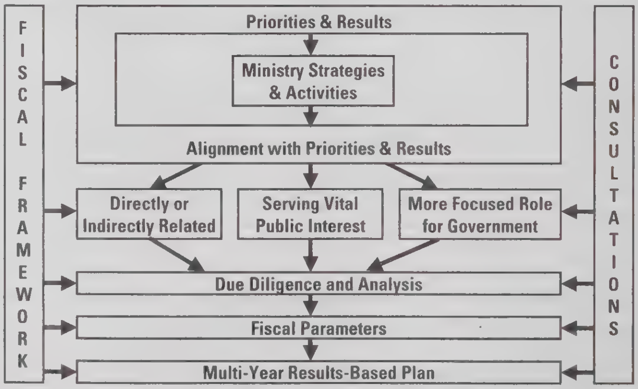
The government has laid the groundwork for a results-based approach to planning and budgeting. The new approach integrates the desired results of government activities into the planning and approval process. In so doing, it ensures that decisions about how to use resources are aligned with results and priorities.

Because it is critical to understand the impact of desired results related to each priority and to establish the right ways of measuring progress towards each result, planning for 2004-05 represented phase one of the new approach. It will be fine-tuned as decision-makers gather more information about existing programs and clarify desired results, as well as related measures and the best strategies to achieve them. This will be an iterative process expected to evolve over the next two budgets.

The fundamentals of the new approach, as illustrated in the adjacent figure, are:

- Consultations provide key input throughout this process.
- Given the priorities and results of the government and the fiscal framework, ministries review all of their strategies and activities.

Overview of Planning for Results



- Those strategies and activities that clearly and directly support priorities are the focus of efforts to improve results. This may involve realigning government resources to make investments in these areas, where it can be shown that the investment will significantly improve specific desired results, including improved efficiency and effectiveness.
- For those strategies and activities that do not directly support priorities but do serve a vital public interest, the focus is on improving the efficiency and effectiveness of the activity.
- Activities identified as neither contributing to key results nor serving a vital public interest are subject to review for the purpose of refocusing resources.
- All strategies and activities then undergo due diligence. This includes analysing whether strategies will lead to the desired results, as well as assessing the risks and risk management approaches in the plan.
- As outlined earlier in this paper, the proposed FTAA would require the Budget to provide the overall limits within which ministries must plan. While some flexibility in dealing with fiscal challenges is always built in, the last step in the planning process is to confirm whether plans are consistent with the overall fiscal context.

The fiscal implications in the planning process are important. Government must develop the appropriate strategies when making new investments in priority areas, so that it can continue to live within its means. Balancing the books through across-the-board cuts, without considering priorities or the multi-year fiscal situation, is not appropriate.

Reporting Results

Later this year, the Premier will release the government's first report on results. It will show progress in developing measures for the results, targets for the measures and the plans for how they will be achieved. This will be an important milestone in the development of a more transparent approach to government reporting. This report will be released annually.

To ensure a link between the Premier's report and financial reporting, the proposed FTAA would require the government to integrate information on results into the Budget and the Mid-Year Economic Outlook and Fiscal Review. This integration is in line with recommendations of the Provincial Auditor, the Ontario Financial Review Commission, the Canadian Comprehensive Audit Foundation (CCAF),[21] and international best practices.

CCAF Performance Reporting Principles [21]

- focus on the few critical aspects of performance
- look forward as well as back
- explain key risk considerations
- explain key capacity considerations
- explain other factors critical to performance
- integrate financial and non-financial information
- provide comparative information
- present credible information, fairly interpreted
- disclose the basis for reporting

The way ahead

Budgeting for results provides a robust framework for ensuring the best use of public funds to meet public needs. With an emphasis on getting priorities right and deciding on the results people want in priority areas, budgeting for results is key in setting the course as the government develops and acts on its fiscal plans.

It is important to note that Budget documentation will also begin integrating better information on risk. The combination of improved information on resources, results and risks is essential for a more transparent and accountable Budget.

This approach will eventually better support relationships between public-sector partners, creating clear results that all organizations can work together to achieve.

Section III: Promoting Efficiency

All governments attempt to promote efficiency in the public sector. People want to see efficient financial management. One of the ways governments in several jurisdictions are attempting to significantly improve efficiency in the delivery of public-sector services is through the introduction of supply chain management (SCM) best practices.

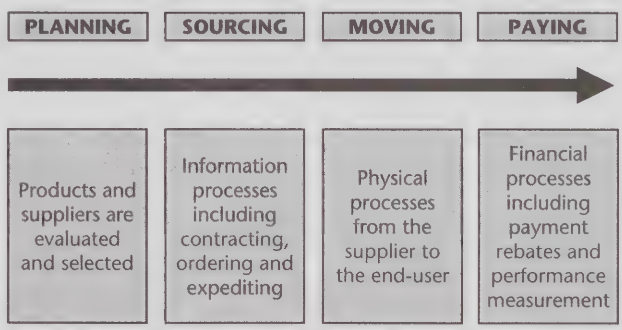
Citizens expect their public services to operate as an efficient, seamless and effective system. It is important that the government, along with its partners, ensure this is happening. If vital dollars are spent needlessly on back-office processes, fewer dollars are left to be spent on classrooms, hospital wards and lecture halls.

It makes sense, therefore, that if there are better ways for the public sector to plan, source, move and pay for goods and services, these should be examined and implemented.

Supply chain management is one such solution and refers to the array of processes that connect customers and suppliers. It is not merely about reducing the price of goods, but rather about taking greater advantage of improvements in how the public sector purchases and manages the flow of goods and services through an integrated structure. By implementing a rigorous and thorough SCM system in Ontario, hundreds of millions of dollars can be channelled back into key front-line public services.

The savings could be substantial. A 2001 Ontario Hospital Association Task Force study estimated the potential value of SCM improvements in the Ontario hospital sector at more than $300 million.[22] Some of those savings have been realized but more can, and needs to, be done.

Supply Chain Management Framework



Adoption of SCM best practices by the private sector has saved billions of dollars while also improving quality and customer service. Public-sector jurisdictions around the world are also adopting SCM. One such example is the Voluntary Hospitals of America Inc. (VHA), a U.S. not-for-profit hospital co-operative with 2,200 members. VHA estimates its members saved $813.5 million US on purchases of $17.7 billion US in 2003.[23] In the U.K., the National Health Service (NHS) has also adopted SCM

and made significant strides in customer satisfaction. Please see the box below for an overview of a key supply chain management initiative in the U.K.

U.K. National Health Service (NHS): Excellence in Supply Chain Management

The NHS in England spends £15 billion annually on purchased goods and services. It was determined that there was enormous potential for NHS organizations to save money through effective purchasing. As a result, the NHS Purchasing and Supply Agency (PASA) was established in 2000 as a significant part of the government's modernization of NHS procurement activities to act as a strategic adviser to the NHS on all supply issues. The primary goal of PASA is to improve the performance of the NHS purchasing and supply system and become the centre of expertise, knowledge and excellence in purchasing and supply matters of the NHS for the benefit of patients and the public.

Some of the achievements of PASA include:

- Achieved savings for the NHS totalling £580 million over the three-year period of April 2000-03.
- Implemented pilot supply "confederations" as recommended in the May 2002 policy document "*Modernising Supply in the NHS*" to develop a middle tier between national (PASA) and local (individual NHS trust) level purchasing.
- Produced an eCommerce strategy for the NHS through the development of an eProcurement toolkit, which provides a framework to help NHS trusts and confederations understand the benefits of eProcurement and plan its implementation in a structured way.
- Developed a national set of purchasing and supply performance management measures to better assess the performance of NHS trusts with respect to supply chain activities through benchmarking analysis and strategic assessment of trust and confederation spending.

Source: National Health Service, U.K.[24]

OntarioBuys Working Group

In Ontario, with a few notable exceptions, the SCM practices in the public sector are often inefficient, not coordinated, and inadequately supported. The solution to overcoming these obstacles is to build on the existing Ontario success stories, such as the Healthcare Materials Management Services in London, Ontario and the success with the Toronto-area school boards prior to amalgamation, and implement SCM best practices across the broader public sector.

To this end, the Government of Ontario is establishing the OntarioBuys Working Group, whose members will include sector expert-practitioners and representatives of institutions committed to best-practices implementation.

As part of phase one of this project, the Working Group will focus on implementing SCM in school boards, colleges, universities and hospitals. The Working Group will also examine linkages, where appropriate, to other sectors. The government will be asking the Working Group to discuss and make recommendations on the following:

- an appropriate structure serving broader public-sector organizations;
- a central entity that would provide co-ordination, benchmark sector performance against best practices and serve as a portal for shareable SCM information; and
- a best-practices implementation handbook, which will be a detailed "how-to" manual for Ontario-specific SCM implementation.

The Working Group will complete its work by December 2004. The government, in partnership with the broader public sector, will work quickly to implement supply chain management to realize improved efficiency and effectiveness. However, real change takes time and the work that starts now is needed to ensure that sound management remains the foundation of public-sector administration in Ontario.

Conclusion

Ontario is at a turning point. It faces a structural deficit and many urgent areas for public investment. The budget reform described in this paper will ensure that this province lives within its means while creating and improving public services for future generations. Ontarians will clearly see the results of public-sector investment. The combination of the proposed FTAA, Budgeting for Results and SCM represents an important step forward in the transformation of government. This transformation will not occur immediately. This is an ongoing process, but one the government is committed to seeing through.

The government will continue to pursue investments in programs that will improve customer service, increase efficiency and save money. Examples of transformation already underway include:

- **Job Connect**: More than 80 per cent of unemployed people using this service find a job or go on to further education and training.
- **Accessing Patients' Drug History**: Emergency rooms will have access to the drug history of over two million patients who are on the provincial drug plan. This will result in better care as patients will be diagnosed faster and given the proper prescriptions while helping to reduce trips to the emergency room for adverse drug reactions.
- **Ontario Student Assistance Program:** Online application and processing of student applications is now immediate rather than taking 10 weeks. More than 90 per cent of students apply and monitor the status of their OSAP applications online.
- **Electronic Patient Record**: Setting up phase one of an electronic patient record system, while protecting patient privacy, in southwestern Ontario, which will ultimately allow two academic health science centres to share electronic patient records between health care providers. This will improve the quality of patient care by reducing errors and decreasing repeated diagnostic testing. More efficient management of health records is estimated to save about $5 million a year.

These examples are but a glimpse of changes to come. Successful transformation will require the development of policies, appropriate measures and targets, supporting information systems and necessary staff training. For example, the Ministry of Finance will develop a ministry expense-limit policy consistent with the evolution of results-based planning.[25] This will provide a key link between the multi-year fiscal framework of the Province and multi-year funding for its partners in the broader public sector.

Government will capitalize on existing structures and maximize the knowledge and experience of Ontario's public servants. A cultural change management strategy will be developed and implemented to support success. It will require ongoing refinement. The ultimate result will be improved accountability, both to the citizens who depend on quality public services and the taxpayers who demand the most effective and efficient use of their funds.

Endnotes

1. Public-finance academics have emphasized these roles and the management reforms needed for more effective budgeting. The following provides an overview of the issues drawing from experiences in other jurisdictions.
   - Schick, Allen, "The Changing Role of the Central Budget Office," *OECD Journal on Budgeting—Governance*, Volume 1, number 1, 2001.
   - Premchand, A., *Public Expenditure Management*, International Monetary Fund, Washington, D.C., 1993.
   - Potter, Barry and Diamond, Jack, *Guidelines for Public Expenditure Management*, International Monetary Fund, July 1, 1999.

2. For further and more detailed information, see:
   - Office of the Provincial Controller, Fiscal and Financial Policy Division, *A Guide to Financial Management Policies and Practices in Ontario*, January 2004.

3. The following provide an overview of the potential biases in democratic systems and the reforms in Sweden that have attempted to address them.
   - Molander, Per, "Budgeting Procedures and Democratic Ideals," *Journal of Public Policy 2001* Volume 21, number 1, page 7.
   - Molander, Per, "Reforming Budgetary Institutions: Swedish Experiences," *Institutions, Politics and Fiscal Policy*, Volume 2, Strauch, Rolf R. and von Hagen J. (ed.), ZEI Studies in European Economics and Law, 2000.

4. Although these rules can be established without legislation, many jurisdictions have legislated them.
   - **British Columbia:**
     - *Balanced Budget and Ministerial Accountability Act* (2001)
     - *Budget Transparency and Accountability Act* (2000)
   - **U.K.:**
     - *Code for Fiscal Stability* (1998) required by the *Finance Act* (1998)
   - **New Zealand:**
     - *Fiscal Responsibility Act* (1994)
   - **Australia:**
     - *Charter of Budget Honesty Act* (1998)

5. The sanctions in the current BBA apply to the Premier and Members of the Cabinet (Executive Council) only.

6. There is substantial documentation on the relationship between fiscal transparency and fiscal performance. These concepts are described in:
   - von Hagen, Jurgen, "Budgeting Procedures and Fiscal Performance in the EC," *Economic Papers 96*, (1992) DG - II, European Commission, Brussels.
   - Alt, James E. and Lassen, David, D., "Fiscal Transparency and Fiscal Policy Outcomes in OECD Countries," for presentation at the Economic Policy Research Unit - Network conference on Danish and International Economic Policy, University of Copenhagen, May 23-24, 2002.

7. Although balanced-budget rules can be constructive in controlling spending, rigid targets can be problematic. Studies of experiences in other jurisdictions suggest that with rigid rules come problematic consequences such as optimistic forecasts, inappropriate omissions and/or commissions, and the postponing of tough decisions. Please see:
   - Alesina, Alberto and Perotti, Roberto, "Fiscal Discipline and the Budget Process," Department of Economics, Harvard University, and Department of Economics, Columbia University, AEA Papers and Proceedings, May 1996—Balanced Budget Rules, Volume 86, number 2.

8. Managing debt can significantly limit the extent to which ongoing and new programs can be funded. The following article discusses the interaction between financial markets and fiscal discipline.
   - Millar, Jonathan, "The Effects of Budget Rules on Fiscal Performance and Macroeconomic Stabilization," *Working Paper 97-15*, June 1997, Financial Markets Department, Bank of Canada, page 8.

9. Australia and New Zealand have legislated requirements for debt to remain at prudent levels. The following provide overviews:
   - Maintaining Sustainable Government Finances, Treasury of Australia, 2002-2003.
     - http://www.budget.gov.au/2002-03/bp5/download/03_BP5Part1.pdf
   - Janssen, John, "New Zealand's Fiscal Policy Framework: Experience and Evolution," *Treasury Working Paper 01/25*, pages 7-9.

   The U.K. has created a similar rule, mandated by legislation.
   - *Analysing UK Fiscal Policy*, HM Treasury, November 1999.

- http://www.hm-treasury.gov.uk/media/89A63/90.pdf

Ontario's accumulated deficit to GDP in 2004-05 is 25 per cent. While this is high relative to the average in the 1980s, it is lower than other governments in Canada, such as Quebec (TD Economics March 2004 provides an interprovincial comparison). Ontario's multi-year fiscal plan is consistent with a decreasing ratio in the future. The forecast for the accumulated deficit to GDP ratio is 22 per cent for 2007-08.

10. Experience in other jurisdictions indicates that balanced-budget rules can contribute to fiscal discipline. The following articles provide a discussion of their effectiveness.
   - "Fiscal Sustainability: The Contribution of Fiscal Rules," *Economic Outlook*, OECD, 2002, Chapter 4, number 72.
   - Kennedy, Suzanne and Robbins, Janine, "The Role of Fiscal Rules in Determining Fiscal Performance," *Department of Finance Working Paper* 2001-6.

   However, experience in other jurisdictions also indicates the need for flexibility and transparency in the design of fiscal rules. The following articles discuss the problems with strict adherence to narrow numerical targets:
   - Penner, Rudolf G., "Dealing with Uncertain Budget Forecasts," *Public Budgeting & Finance*, Spring 2002, page 14.
   - Kopits, George and Symansky, Steven, *"Fiscal Policy Rules*," *Occasional Paper 162*, International Monetary Fund, Washington, DC, 1998, pages 22-23.
   - Loxley, John, "Balanced Budget Legislation or Bad Budget Legislation," *Canadian Dimension*, December 1995/January 1996, Volume 29, number 6.

11. - *Analysing UK Fiscal Policy*, HM Treasury, November 1999.
      - http://www.hm-treasury.gov.uk/media/89A63/90.pdf

12. The development of a multi-year fiscal perspective is a key element of best practices developed by the OECD and International Monetary Fund.
   - OECD, "OECD Best Practices for Budget Transparency," May 2001
      - http://ww.olis.oecd.org/olis/2000doc.nsf/0/c125692700623b74c1256a4d005c23be/$FILE/JT00107731.DOC
   - International Monetary Fund, "Code of Good Practices on Fiscal Transparency," March 23, 2001.
      - http://www.imf.org/external/np/fad/trans/code.htm

   Many jurisdictions have adopted multi-year planning and budgeting in order to improve both fiscal

transparency and fiscal policy outcomes. The following is an overview of practices in selected jurisdictions.

- Boex, Jameson, Martinez, Jorge and McNab, Robert, "Multi-Year Budgeting: A Review of International Practices and Lessons for Developing and Transitional Economies," *Public Budgeting and Finance*, Summer 2000.

13. • Ontario Financial Review Commission, *Raising the Bar: Enhanced Accountability to the People of Ontario*, 2001.

14. Examples of long-term reports include:
    - **Australia:** Treasury of the Commonwealth of Australia, Intergenerational Report 2002-2003. Canberra: Canprint Communications Pty Ltd., 2002.
        - http://www.budget.gov.au/2002-03/bp5/html/index.html
    - **New Zealand:** Minister of Finance, *Budget 2003: Budget Policy Statement*, December 19, 2002.
        - http://www.treasury.govt.nz/budgetpolicy/2003/annexes.asp
    - **U.K.:** HM Treasury, *The Economic and Fiscal Strategy Report, 2003,* Annex A: Illustrative Long-Term Fiscal Projections.
        - http://www.hm-treasury.gov.uk/media//CED06/bud04_annexa_241.pdf
    - **U.S.:** Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Year 2005-2014*, The Congress of the United States, January 2004.
        - ftp://ftp.cbo.gov/49xx/doc4985/01-26-BudgetOutlook-EntireReport.pdf

15. The OECD recommends the following types of reports and their timing to create a transparent budget cycle: Pre-Budget Report, Monthly Reports, Mid-Year Report, Year-End Report, Pre-Election Report, and Long-Term Report.
    - OECD, "OECD Best Practices for Budget Transparency," May 2001.

16. The following federal government study provides an overview:
    - *A Comparative Analysis of Government Performance Measurement Strategies*, Treasury Board of Canada Secretariat, Planning, Performance and Reporting Sector, November 2, 2000.

17. The OECD provides the following definitions relating to the concept of results:

    Inputs are the resources available to an organization or manager to achieve an output or outcome (e.g., money, staff).

    Outputs are the goods or services which government bodies provide for citizens, business and/or

other government bodies (e.g., number of birth certificates, number of operations).
Outcomes are the impacts on, or the consequences for, the community from the outputs or activities of the government (e.g., better student achievement).

- *OECD Journal on Budgeting,* "Outcome-Focussed Management and Budgeting," Volume 1, Issue 4.

Results are best thought of as outputs or outcomes. In the last two decades, many countries have moved away from input-oriented processes towards output- and outcome-focused approaches. This has meant a change in management practices, from controlling costs to determining what deliverables are expected and what impact they will have. Clear, measurable results can enhance the accountability of partnerships in the public sector through performance agreements. The following documents provide an overview:

- General Expenditure Policy, *Outcome Focussed Management in the United Kingdom*, HM Treasury.
  - http://www.hm-treasury.gov.uk/media/1BE78/GEP_outcome%20focused%20managment.pdf
- Departmental Performance Table, Spending Reviews, HM Treasury, U.K.
  - http://www.hm-treasury.gov.uk/documents/public_spending_and_services/publicservice_performance/pss_perf_table.cfm
- Ministry of Health Services, Ministry of Health Planning, *Report on Health Authority Performance Agreements, 2002/03*, British Columbia.
  - http://www.healthservices.gov.bc.ca/socsec/pdf/haagreement0203.pdf
- Ontario Hospital Association, *Advancing Accountability Through Hospital Funding Reform, A Policy Framework to Promote Greater Access, Efficiency and Quality of Care*, April 2004.

18. In the traditional process, ministries or departments provide the budgeting office with their submission for the new year. The following notes that these submissions usually provide little or no review of the relevance and performance of the activities approved in the past.
    - Osborne, David and Hutchinson, Peter, *The Price of Government, Getting the Results We Need in an Age of Permanent Fiscal Crisis*, Basic Books, 2004.
19. **Australia:**
    - Chan, Matthew, Nizette, Mark, La Rance, Lisa, Broughton, Charles and Russel, Derek, *The OECD Journal on Budgeting*, Australia, Volume 1, Issue 4, 2002.

Washington State:

- *The Priorities of Government—Overview and History*, Office of Financial Management, Washington.
  - http://www.ofm.wa.gov
- Governor Gary Locke's Remarks, 2003 State of the State Address, January 14, 2003.
  - http://www.governor.wa.gov/speeches/speech-view.asp?SpeechSeq=378%20

20. • Nolté, Judith, Maxwell, Judith and Mackinnon, Mary Pat, "Trust and Balance," *Citizens' Dialogue on the Ontario Budget Strategy 2004-2008*, Canadian Policy Research Networks, April 2004.
    - http://www.townhallontario.gov.on.ca

21. • Canadian Comprehensive Auditing Foundation, *Reporting Principles—Taking Public Performance Reporting to a New Level*, 2002.

    In his latest report, the Provincial Auditor recommends that the government adopt the CCAF reporting principles.
    - *2003 Annual Report of the Office of the Provincial Auditor of Ontario*, Chapter 2, Towards Better Accountability, Office of the Provincial Auditor, 2003.

22. • Task Force Report on Supply Chain Management, "Improving Supply Chain Management for Better Health Care," A Joint Initiative of the Ontario Hospital Association and Efficient Healthcare Consumer Response, November 2001.

23. • Voluntary Hospitals of America, Inc., "VHA Delivers $1.13 Billion in Value for Members in 2003", April 29, 2004.
    - https://www.vha.com/news/releases/public/040429b.asp?DisplayPrintHeader=true

24. The NHS PASA is charged with modernizing and improving supply management across the NHS in the UK to help ensure that money is spent to best effect, as a result of the recognition that there were inconsistencies in purchasing performance. The NHS found that up to half of its total non-payroll spend (primarily purchasing) was not subject to rigorous, professional purchasing and value for money process. These issues are described in:
    - NHS Purchasing and Supply Agency, *The Agency's Role in Delivering eProcurement in the NHS,* February 2004, pages 2-4.
    - NHS Purchasing and Supply Agency, *Modernising Supply in the NHS,* April 2002, pages 3-18.

- NHS Purchasing and Supply Agency, *Corporate Plan 2003/6,* May 2003, pages 2-9.
- NHS Purchasing and Supply Agency, *Framework Document*, January 2001, Introduction, page 1.

25. The concept and uses of expenditure limits are described in the following:
    - Blondal, Jon, "Budgeting in Sweden," OECD 2001.
        - http://www1.oecd.org/puma/budget/pubs/Journalvol1no1.pdf
    - Spending and Planning Control, HM Treasury, U.K.
        - http://www.hm-treasury.gov.uk/spending_review/spend_plancontrol.cfm

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